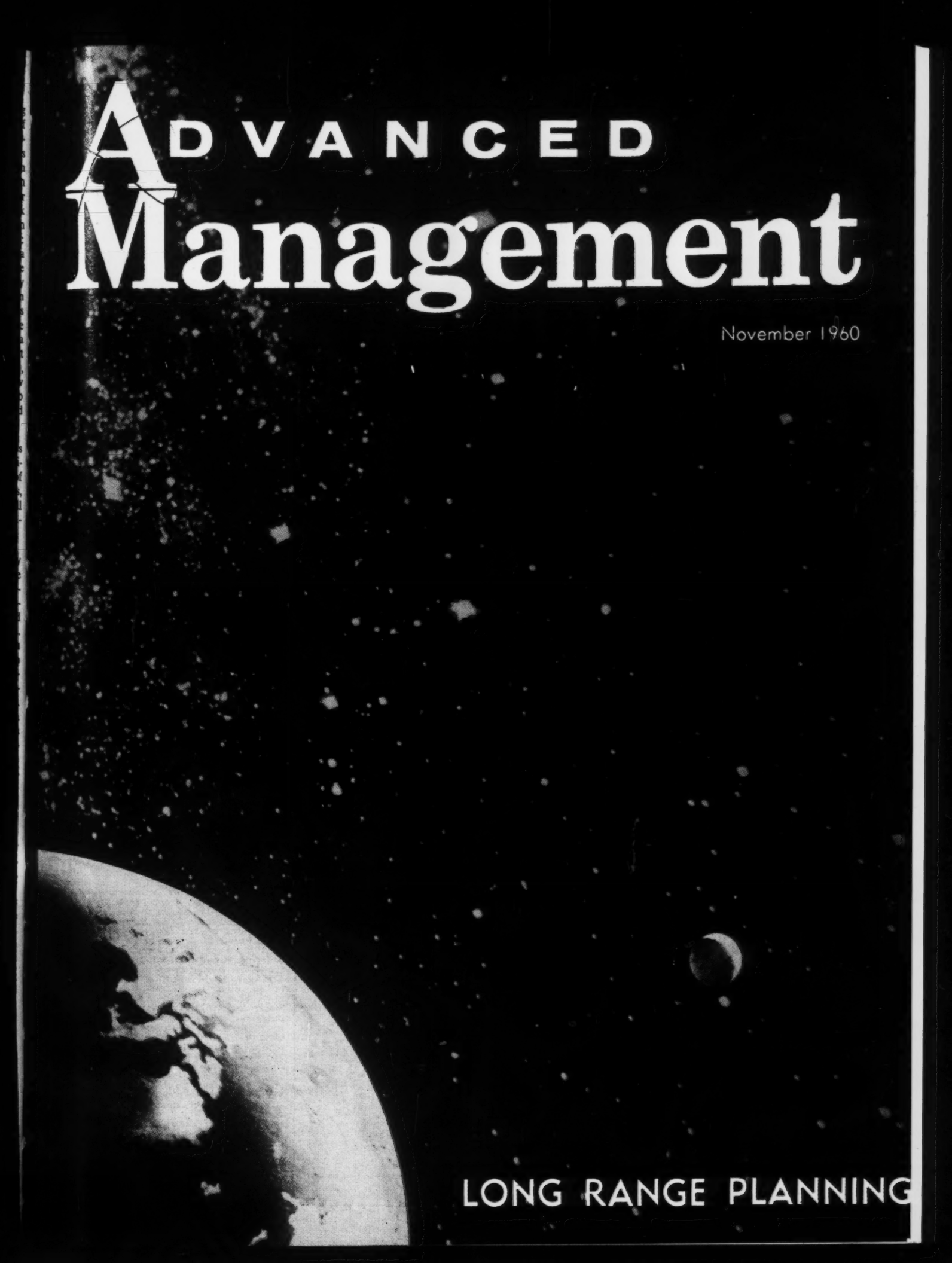
# ADVANCED Management

November 1960



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| April 6-7, 1961 | S.A.M.-A.S.M.E. 16th Annual Management Engineering Conference, Statler-Hilton Hotel, New York |
| April 8, 1961 | S.A.M. Executive Committee Meeting, Statler-Hilton Hotel, New York |
| June 23, 1961 | S.A.M. Executive Committee Meeting, Indianapolis |
| June 16 to 26, 1963 | CIOS, 13th International Management Congress, New York City |


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PATRICK J. REDDINGTON
Business Manager

Sworn to and subscribed before me this 3rd day of October, 1960
Notary Public, State of New York
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(My commission expires March 30, 1963)

# The Worth and Role of the Individual

*We can think of no more appropriate editorial for the holiday season than this response of Mr. J. C. Penney's to the SAM Human Relations Award at the 1960 Fall Conference a few weeks ago.*

*Ed.*

THROUGHOUT the world today we are confronted with the terrible spectacle of great blocks of human beings living where, it is well known, the individual counts for little or nothing. The mind quails before the assertion that Red China can go on to "a great future" if half of its population is annihilated by nuclear war. We can thank God that there remains a free world, in which the individual counts for a very great deal. But, while we thank God that this is so, we must remember that eternal vigilance is, indeed, the price of freedom. We must constantly renew our determination to maintain the identity and creative strength represented in the individual.

I am very glad for several reasons to bear testimony on this matter. You would hardly expect me to minimize the values of group strength and teamwork in business. As many of you know, these elements have counted mightily in the development of the Company I founded fifty-eight years ago. While I have been concerned intimately throughout my business career with — as you might say — honing the tool of teamwork, I have never forgotten for a minute that teamwork is not a disembodied force, but is *the total sum of individuals*. There are many facets to the worth and role of the individual, any one of which should remind us that the individual is a source. The great milestones in civilization have been set by the dreams and considered impulses of individuals. A great and gifted social worker was wont to say, "How can I tell that in some newcomer we won't find another Michelangelo, another Louis Agassiz, another Mark Twain, another George Washington Carver?"

We cannot get along without the group, and teamwork, but we need to bear in mind, in pursuit of common aims, that talents and effort of *individuals* are the source of harmonious teamwork. Such is the rush of life these days, and such are the pressures and tensions surrounding us on all sides, that perhaps we tend to take for granted, or even lose sight of, the worth and role of the individual. It is indeed well for us to pause and remind ourselves that no teamwork can ever be worth more than its individual contributions. It is a value to be guarded — conserved, both for the sake of the common aim, and the spiritual enthusiasm of the individual.

Because I have such strong convictions about the key importance of the individual in our whole fabric of living, I am very glad that there is an organization such as this, bringing people together not as corporate-members, but as individuals concerned with individuals and their potentials as such. Of course, I always have had a high and active regard for corporate bodies. The corporate body fills an indispensable functional role in our society. But we shall understand and appreciate that role the better as we understand it in relation to that of the individual. As Abraham Lincoln said of the function of government, its purpose was to do for the people those necessary things which the people could not do, or do so well, for and by themselves.

I started my career in a period of predominantly individual business. When it came to earning a living, and getting ahead, every man was pretty much on his own. As some of you know, I became involved in what was then, and with certain modifications continues today, a partnership pattern of a rather unique type. But growth was always a matter of the individual. When one of my early men first came to be interviewed, he wanted to know what the possibilities for a future in our Company would be. I replied, "I am looking for a man with integrity, initiative, limitless vigor and energy, and a sense of responsibility," for I believe a successful man must have these basic requisites. "You'll have all the rope you want," I said. "All you have to do is show that you know how to use it wisely."

It has been my experience that most people only want the chance to show what they can do. In our business from the very first we put strong emphasis on doing things according to Christian principles. This grew directly out of my early home training. I had been reared in a home where it was impressed upon the children that there can be no difference between the principles for religious, and secular, living. That is to say, no set of rules for Sunday living and another for weekdays. Individual integrity and fair play were the only path to success.

It seems to me that it is the constant thirst of the individual that drives him to discover the ways and means to become the best that lies within him. This brings into focus his worth and his role. In pursuit of it we are all equals, all in a position to help each other in one way or another. No day should be lost in which we charge ourselves to be newly perceptive as to individual potentials everywhere about us to do what we can — what we would like to have done unto us — to draw people out, making a little more room in which they can grow.

We look back, awed, to the Ben Franklins, the Galileos, the Beethovens, the Spinozas, telling ourselves they belong to the past, that their like will never come again.

How can we know that? Were they not once unnoticed? I like to think this throws into relief an aspect of the worth and role of the individual that we may tend to pass over too hurriedly. And it seems to me very promising indeed that such an organization as yours exists. Not only does it set a constructive example: it opens up unlimited areas of exploration in human relations.

J. C. PENNEY
*1960 SAM Human Relations Award Winner*

# A Philosophy For Long-Range Planned Development

by

**Daniel J. Sullivan**

### The Problem

IN INDUSTRY today it is common to find managers who are so completely involved with the intricacies and small details of their business that they do not take time to concern themselves with developing their men. True, training departments and management development sections have been organized — perhaps because it is a trend of the times. Too often training personnel establish courses, enlist the aid of local universities and vocational schools for more courses, and then attempt to persuade managers to promote attendance in these courses.

This approach may satisfy a current need in helping men to gain knowledge desired immediately. It may even be a way to broaden the knowledge of some employees. However, the question that presents itself is how much more knowledge could be acquired and how much more profit could be realized if more attention were given to a long-range planned development of personnel. Most managers wish to accomplish more, to buy raw materials more cheaply, to sell more profitably, to manufacture more and better products; yet they pay more attention to the money, the equipment, the products, and the systems than they do to the most important factor of all — the employee.

When a man is doing his best, or better than his best, he is making his greatest possible contribution to the common cause. To have all employees making this contribution is to have the greatest possible assurance of the success of any enterprise. This contribution may be attained through long-range planned development.

### Definitions

In recent years there has been a wealth of data distributed on the growth and development of employees. Often, however, this development referred to has been short-lived, because only one particular and immediate need of an individual was satisfied. On occasion, the development has been far-reaching and planned well.

This concept of development, in its true essence, must be defined for what it is worth and separated from the often misused and closely allied concept of training.

The classic definition of "development" seems to center around the "act of bringing forward the capabilities or possibilities." Looking at this definition from an industrial viewpoint brings to mind that it reflects one of the primary responsibilities of a manager to his employees. However, managers, often confuse "training" with "development." According to Webster, "to train" is "to form by instruction; to teach so as to be fitted, qualified, or proficient." Thus, as far as the employee is concerned, training must be defined as the mass of data, methods, and aids which result in attaining the training objective — development. In order to arrive at this objective, a philosophy of development is necessary for guidance.

There may be many philosophies of development because there are many philosophers, each with his own particular twist on what is basic to a philosophy.

**Emphasis: L R P**

This article and the one following are two different approaches to Long Range Planning. They reflect some of the ideas exchanged at the SAM Fall Conference held in New York City last month.

The workshop led by Eugene Benge suggested Long Range Planning must meet manpower needs and organizational growth. Mr. Sullivan has emphasized the manpower development aspect of Long Range Planning and Mr. Miller, Organizational procedures.

H. A. S.

### Can Philosophy Be Applied to a Business Situation?

Managers who recognize their responsibility for developing subordinates need a philosophic basis for their endeavors. Such a foundation will aid in establishing guideposts along the path of personnel growth. However, there are times when it appears that the "sight of the forest" has been lost. Training in and of itself has become a goal or an end, rather than a means to the end — the development of people. The means include materials, methods, and a variety of aids coordinated through an activity known as training. Since a philosophy considers ultimates, it can only be applied in this instance to development, for training is a means to achieving development.

Philosophy has been defined as the knowledge of all things through their last causes. A philosophy of development embraces "all things" which fulfill the developmental objectives as defined by any specific organization. An evaluation of individuals which will indicate their needs deter-

mines the causes for the philosophy of development. These causes are then reverted to the defined objectives to be used as guideposts in preparing developmental programs.

### A Philosophy of Development

A philosophy of development must be based on the true nature of man, the nature of the position he holds within an organization, and the nature of the particular industry with which he is associated.

The true nature of man has been expressed in the Preamble of The Constitution of The United States — "Man is endowed by his Creator with certain inalienable rights . . . life, liberty, and the pursuit of happiness." There it must be noted that the dignity of man is closely associated with the absolute wisdom of God from which comes universal truth. The nature of the position most men hold in organization, and its demands, assists them in seeking attainment of these inalienable rights as stated in the Preamble. Opportunity for development must be present if men are to enjoy these rights in varying degrees. However, these rights which individuals seek are not "gratis." They are accompanied by commensurate duties. How much a man makes of this opportunity depends upon himself — how well he fulfills his duties in pursuing the rights.

No individual can be left to pursue these rights on his own — some type of development must be afforded him within the organization with which he is associated. In order to be directed toward the ultimate—attainment of these God given rights—guidance is needed. There may be philosophies other than that of development which will provide guidance to an employee, but rather than rely on the extraneous, this philosophy must lead to the ultimate and scientific truths about development. When endeavoring to guide personnel, some managers may easily confuse the means with the end, especially when trying to satisfy a temporary need. The goals or objectives for the development are too immediate, or not determined.

However, a philosophy may best be expressed through its specific objectives. Definite objectives will aid in clarifying a philosophy of development and will help to avoid confusing the means with the end. These objectives are determined by the level of employees as they advance through the developmental guided processes within an organization. In seeking the goals at each level, each man is making his greatest possible contribution to the success of the organization.

### Statement of the Philosophy

To have the greatest possible assurance of success of the company, development of personnel should be effected through a guided process, whereby a person may consciously seek to direct his efforts to participate in planned environmental experiences. Thus, an employee is consciously or unconsciously motivated to change his voluntary behavior in thinking, in acquiring knowledge, in interests and attitudes, and in the acquisition of skills in accordance with his human nature and his position within an organization.

An examination of the meaning of terms used in the statement may more fully explain its intent:

"Guided process" is a planned, organized, systematic development.

"Directing an individual's efforts" infers positive planning with a degree of imposition on occasion in selection of both substance and method. This could be called designed implementation.

"Change in thinking" is to bring about a desire to use the intelligence effectively and expeditiously in attaining goals.

"Knowledge acquired" should be based on accurate information.

"Interest" is shown by identifying one's self with an object.

"Attitudes" refer to an emotionally colored disposition to behave favorably or unfavorably toward a person, thing, idea, or situation.

"Skills acquired" may be verbal or manual repetitions consciously performed or not.

### A Philosophy Must Consider the Whole Man

One defect found among most philosophies of development might be called unilateralism. There are some managers who do not view training of employees through a wide-angle lens. As a result, their focal point is narrowed and programs are developed only to meet crisis situations.

This philosophy of development is well orchestrated. It focuses attention on the broad development of the individual, allowing for the differences found among men at various employee levels. The universality of efforts of development, in the sense of developing the whole man for all areas of living, comes only as a by-product of our influence during the stages of development.

By nature, as they move through the stages of development wtihin a company, most men seek more than accomplishment of the specific detail of an assigned job. They are also concerned with other job factors — how the boss accepts them, morale of their working group, working conditions, and wages. To complete the development of individuals, whether directly or indirectly, life off the job must also be recognized. Since most men in a productive situation have limited opportunity beyond fulfilling job objectives, development efforts should be directed toward promoting satisfaction of a job well done by interjecting broadening educational programs designed to implement present production personnel needs.

Developing individuals to a point where immediate needs are satisfied is useful, but only planned long-range development will help an organization move forward through the complexities of today's economy. This development involves all types of activity which extend from an individual's application for employment to his growth through the per-

formance of various functions within a company. What are some of these activities that develop people?

### A Suggested Guided Process

For all new employees there should be some type of orientation. In this early state of development, individuals should be given a knowledge of the company, company policies, and pertinent job facts. Besides these aids, hourly workers may need assistance in technical and manual skills, such as the operation of equipment used on a particular job. Developmental activities for hourly personnel, which could be directed by supervisors in a man-to-man relationship, might include creating a feeling of belonging, interest in the job, responsibility, and a general appreciation of the company.

To be effective, the guided process should include three specific objectives:

(a) "Bedrock" development to insure a better on-the-job performance.

(b) "Broadening" development to prepare managers to meet more efficiently the complexities of competitive business.

(c) "Polishing" dvelopment to provide an element which offers opportunity and encouragement for self-development.

These objectives may be reached through a guided process based upon a sound philosophy of development.

Bedrock training is for first-line supervision, e.g., general responsibilities, man-management skills as giving orders, handling complaints, job simplification, and human relations. Further development for the first-line could include conference leadership, report writing, planning the workload, job instruction, and how to apply management policy. To comply with our philosophy, person-to-person guidance by the supervisor's superior is desired as these skills are applied.

Broadening for middle management encompasses further skill in managing, as the ability to inspire and secure cooperation. Other skills for this group include effective delegation, controls, counseling techniques, evaluation, interpreting and applying management policies, and communications. Further broadening could come through learning the latest developments, as new techniques, methods, and systems. Advanced knowledge of man-management, such as fundamentals of industrial psychology, labor trends, national business conditions, and a broader view of company objectives and policies would be beneficial.

Aids designed to polish upper management include: a knowledge of employee attitudes; the effect of policy; labor-management trends; advanced approaches in the scientific management of men, materials, money, and machinery; and some knowledge of advanced principles of industrial organizational planning, taxation, and national and world trade. Skills already acquired in the analyzing and developing of personnel policy — as job organization, costs, and other management problems — may be improved. Additional development might provide for developing more desirable attitudes among supervisors, participation in community growth, and interest in the preservation of the present economic order.

More formalized activities may complement this development, e.g., the use of managerial skill courses and special purpose sessions and seminars. Informational and discussion meetings, as on the annual report, may be conducted. These activities could change from time to time as occasion demands. Higher management should set the example through counseling and guiding other managers toward accomplishment of objectives as outlined in the philosophy for development.

### The Need Exists

Today most companies recognize a need for long-range planned development. Because of a systematic approach toward development of personnel, better on-the-job performance may be expected. Managers are prepared more effectively to meet the complexities of competitive business. This type of development offers opportunity and encouragement for self-development.

Such a comprehensive building of the individual, based on a sound philosophy of development, reflects a greater integration of activities which affect the company and the employee. Company objectives will be more thoroughly understood. Company problems will be handled more efficiently. More men will have an opportunity to grow stronger in their capacity to perform assigned tasks. Adherence to the philosophy will develop a broad base of effective managers through which the whole structure of the company will grow stronger.

A long-range planned development program for personnel, based on a sound philosophy of development, will assist any organization in maintaining its competitive position in today's economy. It will assist employees to perform better than their best and thereby make their greatest possible contribution to the organization. ■

***Daniel J. Sullivan, Management Development Coordinator, Missiles & Space Division of the Lockheed Aircraft Corporation at Sunnyvale, California. He has served as a consultant in the transportation, food processing, aluminum, and aircraft industries. Mr. Sullivan has been Industrial Psychology Lecturer in the evening school of Seattle University and received his M.A. in Psychology from DePaul University, Chicago in 1959. He organized and was first president of the Seattle Chapter of S.A.M.***

# Long Range Planning

## . . . an Overview

by

**Ernest Miller**

### Longe-range Planning — An Overview

LONG-RANGE planning is a tool. As a tool it can be viewed as a capital investment. Plan when the return on the investment is acceptable in an absolute and relative sense, considering other alternatives. Do not plan, or change your planning period and technique when the value gained in increased profits is not acceptable as a return on planning costs. It is with this approach that any consideration of long-range planning must begin.

Informal daily, weekly and monthly planning is a business necessity in all businesses and in all activities. It is only when special research is necessary to provide a factual basis for planning activity that a systematic review of the worth of the investment must be made.

### Why Plan?

Why do we plan? Do we have a sound basis in experience and logic to justify our long-range planning? Only if we have critically analyzed our own need can we make a sound business decision on long-range planning.

Do you plan to reduce risk?

Risk is defined in terms of survival. Most managers agree that survival is the first test of the effectiveness of a business. When we risk we jeopardize profits and survival.

Risk is also defined in terms of uncertainty. If we know the consequences of our proposed actions there is no risk. Only with uncertainty is there risk.

Uncertainty varies in degree. While complete certainty is the probability 1.00 or 0.00 that an event will take place as predicted, complete uncertainty is .50, the event is equally apt to take place or not take place. Between these extremes are varying degrees of uncertainty. Risk is reduced when uncertainty is reduced; there is less risk when we act on the basis of what is most probable will happen.

Planning begins with a forecast of the future. It is a fact of nature that the seeds of the future are in the past and the present. Knowledge of yesterday's and today's events that will help shape tomorrow is not usually obvious or readily available. Nor, practically speaking, is this knowledge so complete as to eliminate uncertainty. Within these limitations forecasting gives estimates of the probability of occurrence of certain events in the future. Planning serves to adjust the present and future activities of the business to the probable future, evaluating and investing in proportion to the degree of uncertainty and consequent risk. Forecasting and planning reduce the degree of uncertainty of what will happen in the future; they reduce the risk; they enhance the probabilities of survival.

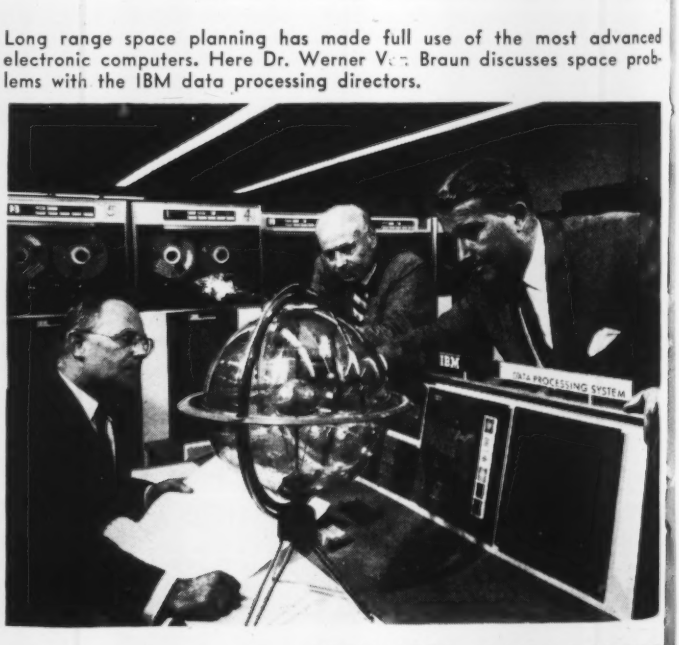
Do you plan to increase profits? Profits are the reward for satisfying customer economic needs. The rate of profits is a function of the risk undertaken to satisfy the need; the higher profit rate is in the situations perceived as the more risky. More certainty of probable customer needs, in type and quantity, comes from forecasting future markets. Our activities can be planned to satisfy these needs to earn the profit reward. Planning leads to more assured profits.

The economic satisfaction of a customer need is an additional requirement for a profit and a satisfactory rate of profits. Economic satisfaction relates to price; the product must be priced to be economically attractive to possible consumers. Price is a market phenomena for most products and to a degree for all products. An element of forecasting is price forecasting. Knowing probable price levels and profit goals sets the cost objectives for the company. We plan to meet cost objectives; we plan to reduce all costs to the lowest level consistent with short and long-range business requirements and objectives.

Long-range planning increases the level and rate of profits by increasing the likelihood that a company will satisfy present and future consumer needs at optimal prices and costs.

Do you plan to be better prepared to meet effectively future problems and opportunities? Forecasting and planning are defined in terms of the future. Forecasting and planning have significance only to the extent that they affect action. Obviously it is economically desirable that our actions increase in effectiveness; our economic objectives can not be achieved by striving for less efficient action.

Long range space planning has made full use of the most advanced electronic computers. Here Dr. Werner Von Braun discusses space problems with the IBM data processing directors.



We will not forecast and plan except when we expect that to do so will help us to act more effectively in meeting future problems and opportunities.

Do we plan to provide a sound basis for coordination and integration? Is the act and result of planning a communications device? Business progress and results are accomplished through activities conducted by many people. Progress and results are defined in terms of movement toward agreed upon objectives or goals. Objectives and goals can be accomplished by alternate means. Planning specifies the means to be used to accomplish the goals.

In the process of evolving plans for future action the responsible managers have the opportunity to propose, consider, criticize and select the means that are judged most appropriate for use to accomplish the company's objectives. The plan is known, understood and accepted by the managers involved. It has been communicated. It provides a sound basis for coordination and integration among these managers.

Do we plan as a competitive response to the planning practices of other companies? If a competitor purchases new, more efficient machine tools that will make the product at lower cost we must react to dissipate this temporary advantage. If a competitor streamlines his marketing organization to give him more effective coverage and penetration we must meet this competitive challenge. Planning is a profit generating business tool. If it is being skillfully used by competition we must respond competitively.

A competitor who has a more accurate forecast of the probable future and of actions required to satisfy customer needs than we have will serve better and thereby increase his level and rate of profits. Since we can assume a relatively fixed number of profit dollars in any market at any given time he who best serves takes his increased profits from his less efficient competition. The decline of a company is first evidenced by a decline in its profits relative to its competition. Can there be any other course than to respond competitively when planning as a profit generating tool is used against you? In such situations you plan to survive.

There seems little question of the "why" of planning. It is not because it is a business fad; it is not because we have been told to do it or that we wish to stay respectable in the business community by having such "status activities." We plan for survival, we plan for profits, we plan to have and maintain a hard-hitting, well coordinated organization with our activities integrated to accomplish our profit and growth objectives.

**What Is A Plan?**

What is a plan? Plans are outlines of actions proposed for the future. All planning relates to the future. All planning relates to action required to achieve desired results. All planning is based on an anticipation of what the future will be like; this anticipation may or may not be sound. (The adequacy of the forecasting techniques will affect the soundness of the anticipations.) Plans set forth proposed actions.

Action requires capacity to act; this requires resources of the right kind, quality and amount in the right place at the right time. Plans are statements of resource needs, programs for resource acquisition and patterns of resource application. Plans assure that the capacity to carry out proposed business actions is available when and where needed.

More specifically — plans are projected responses to general economic, political, technological and social conditions of the business environment anticipated for the future. Realistic plans can only be developed from realistic forecasts. Practical plans cover the application of company resources to influence the conditions, situations or events subject to influence by the planning company and the steps to adjustment to conditions not subject to influence. General economic, political, technological and social forecasts are the beginning of planning activity. Economic forecasting is basic to all planning since it anticipates future markets and suggests future product needs. Markets and consumer product needs and the desire to serve them well are of basic concern in planning. A forecast of political conditions will help a company to anticipate how economic responsibility will be shared by government, commerce, labor and industry. Technological forecasting will suggest the characteristics of products that will be manufactured, how they will be manufactured and the mechanical aspects of their distribution. A forecast of general social and cultural conditions will help a company anticipate economic and non-economic values and needs in their markets so they can optimize general need satisfaction in what they make, how they make it and how it is distributed.

Forecasting as described above is general. The forecasts will be of value to all participants in the economic life of a market. Particular companies will have, in addition, particular information needs to provide the knowledge needed to plan to meet effectively problems and opportunities in the particular markets for which they have assumed responsibility. In this sense plans are projected

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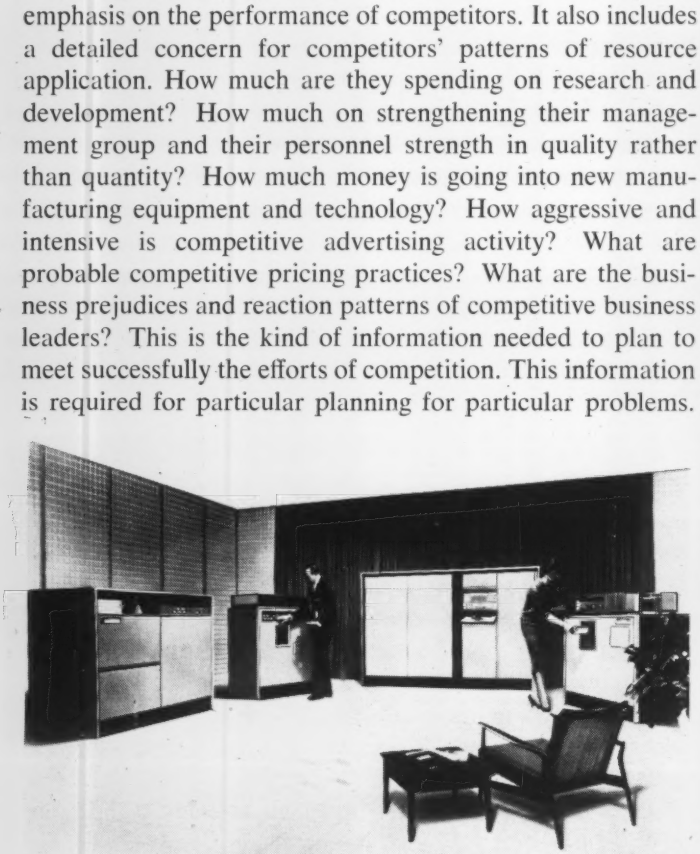
responses to anticipated future conditions in restricted markets and for particular products and as such require that a careful assessment of competitive activity be made. Survival and profits require effective planned responses to anticipated competitive activity.

Competitive planning requires effective business intelligence activity. Business intelligence is a broad concept including sales analyses and market research with special emphasis on the performance of competitors. It also includes a detailed concern for competitors' patterns of resource application. How much are they spending on research and development? How much on strengthening their management group and their personnel strength in quality rather than quantity? How much money is going into new manufacturing equipment and technology? How aggressive and intensive is competitive advertising activity? What are probable competitive pricing practices? What are the business prejudices and reaction patterns of competitive business leaders? This is the kind of information needed to plan to meet successfully the efforts of competition. This information is required for particular planning for particular problems.



Today's modern corporation is doing more scientific planning with such advanced systems as the Remington Rand Univac Solid State Computer shown here.

### Plan Characteristics

Plans vary. They vary among companies because of technological and market differences, among organization levels because of variations in scope of concern and varying degrees of authority to commit resources and among function from differences in knowledge and forecasting feasibility. Plans vary in the —

Planning period . . . Breadth of plans . . . Depth of plans

### The Planning Period

The planning period varies from minutes to generations of men. Informal planning by the hour and day is a necessity for an organized man. Planning in generations is a necessity for today's undeveloped countries and for organizations whose raw materials are replaced by nature through a long time cycle — timber products for example. Within this possible range of variation companies have selected their own planning periods. While there is still debate the consensus for planning in manufacturing and most commercial enterprises is a one year plan in detail, a three year plan in specific outline and a five year plan in a broad stroke sketch. Some companies, such as utilities, and most governmental agencies and associated units must plan for ten or twenty year or longer periods. What determines the period used?

Planning can not go beyond the period for which it is possible to forecast conditions or events with greater than chance accuracy. Obviously it is economically wasteful to attempt to plan for conditions which are as likely not to occur as to occur. Organizations whose activities are related to conditions or events that can be predicted with economically significant accuracy far into the future should so plan.

Planning can not go beyond the period within which it will be economically possible to act today in ways that will significantly affect the achievement of tomorrow's goals and objectives. To illustrate, it is possible, if not probable, that by 1980 copper, nickel and chromium will be too expensive for continued use in many plumbing and heating applications. New techniques of plumbing may be necessary or economical substitute materials must be found. A planned research and development response to this forecast condition is in order. Not appropriate at this time is any planned response in marketing and manufacturing technology.

Planning can not go beyond the point where the economic value received is in balance with the cost of obtaining the value. The further into the future we attempt to forecast and plan with worthwhile precision the more information we need. Information is a commodity for which we must pay. The value of the information is a function of the degree to which it enhances the likelihood of survival of the organization or the amount and rate of its profits. The value of information declines as its significance relates more and more only to the distant future since the possibility of significant current action which will affect future results also declines. Costs go up, value goes down as we attempt to forecast for longer and longer future periods. We can only justify planning for that period for which the economic value obtained is in excess of or at least balanced with the cost of the planning effort.

Different functions, because of numbers of people involved, geographical dispersion, educational levels and consequent accessibility to usual communications techniques, or their dependence on the rate of general progress in the state of the art, need more or less time to achieve a desired future response and action pattern. Research and development, for example, may need five years to develop a product; finance may need a year to get the money needed to add the product to the company's line, manufacturing may require two years to build, equip and staff the manufacturing plant and marketing may require a year to properly launch the product. It is clear that the planning period for different functions can, and indeed must, vary.

The planning period varies by organization level as well. The foreman in the shop is concerned with this week and this month. To be sure he may be concerned about the long term need to replace a piece of inefficient equipment but his first concern is with the next few weeks, months and, at most, quarters. The superintendent works with the quarter and year, while his plant manager faces this year and the

next two. And so it goes. Business practice, and the seemingly most sensible and efficient division of planning responsibility has the planning period vary with organizational level, the higher the level the longer the planning period.

Recognizing how planning periods vary among companies, functions and levels of organization when, in any general sense, can planning be described as long-range planning. For our purpose planning will be considered long-range whenever it is based on a systematic effort to collect and analyze the significant economic, technological, political, social and market data needed as a basis for forecasting events and conditions one or more years in the future and when it outlines how the company will acquire and use economic resources to achieve its business goals and objectives in the forecast period. When planning is based solely on routine reports and information flow or is for a period of less than one year it will be considered as short-range planning. Only when the operations of systematic data collection and analysis, of projecting future conditions and of the step-by-step correlation of anticipated conditions and organization response have been carried out, will we call it planning. These acts define planning. Only when the planning is for one or more years into the future will we call it long-range. Both conditions must be met for the activity to be called long-range planning.

### Planning Technology

Planning is rapidly becoming a science of considerable complexity. Market and economic research and forecasting, statistical analysis and inference, correlational and trend analysis, incremental analysis, input-output theory, game theory and operations research are a few of the analytic tools available to the planning function. Adequate planning performance requires the sensible use of these tools. Can the operating manager take the time from his working day to learn and apply these techniques? It does not seem likely. Of necessity planning technicians must be added to the organization to apply modern analytic tools to the planning problems of the company.

Does this suggest that the planning function will be taken from operating managers and established as a separate activity? Parts of the planning function will. Information collection and analysis are technical jobs most economically and effectively performed by specialists. The results of the specialists' activities will be a series of alternative approaches to the future weighted by risk and probable return. The operating manager chooses — he decides. In exercising the planning choice he retains the responsibility and authority for planning for the results for which he is accountable.

### Cost

Ideally, each of the necessary functions of an organization will be carried out in a way that the profits resulting from the function will yield the optimal return on the cost of the function. Each company will try to optimize the long term profit attributable to each of its functions — planning included.

Operating managers are the most highly paid of management and technical personnel. They are paid for their responsibility to take risks and decide on business questions that determine the profitability of the business. Their skill in making the best choices — the best decisions — determines their personal success.

Planning specialists as a group are paid well below the level of operating managers. They are paid for applying their special skills to restricted business problems. They are paid for their skill in analyzing business problems into a series of alternative courses of action. They are not paid to choose — to decide — among these alternatives. They do not decide.

Greatest economy in planning comes when the lower paid specialist is used to perform a job for which he is specifically trained while the more highly paid managers are used to make the choices, the decisions, not for data collection and analysis, activities in which they have little skill and less interest.

### Quantitative Aspects of Planning

Precision requires measurement. Measurement yields quantitative data. Forecasting and planning precision will only be obtained when the significant factors affecting the nature of a business and its profitability are measured — are expressed in quantitative terms.

The measurements used in forecasting and planning vary in complexity from the dollar value of net sales to the sales by product lines projected using an econometric model of a particular company. Measurements are in terms of dollars, people, time, pounds, tons, percentages, units, indices, etc. but each is significant to the degree that it reflects and varies with actions or consequences that affect the success or failure of the organization.

Budgets are the most common quantification of planning. But budgets are developed from other quantitative data. Standard cost systems for manufacturing and distributing activities, sales, market and economic forecasts, capital requirements forecasts and related forecasts of financial markets, raw material cost indices and forecasts, labor cost indices and forecasts, employee and community relations indices, all these and many more measurements must be used in the quantification of our forecasting and planning activity. With this information and with the analytical tools, such as input-output analysis, incremental analysis, general econometric models and operations research techniques, rigorous precision and systematic improvement of forecasting and planning techniques will be obtained. ■

# Is Management Development Worth The Cost?

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### The Problem

All of us are familiar with today's shortage of executive and supervisory talent. Clem Margullo, chief editor of *Newsweek,* has gone so far as to characterize it as "painful." Further, because of the way in which the age distribution of our population now appears — many persons in the young ages, many in the older brackets, relatively few in the years of work productivity — it appears that this shortage will be with us into the discernible future.

Further, the causes of this shortage are not hard to find. Briefly, the main causes are:

1. The depression of the '30s caused many companies to cancel such programs because their benefits could be justified only on long run, indirect grounds;
2. The war took many promising young men out of industry into military service; and, while many secured *leadership* training and experience in service, these assets were not immediately usable in industrial positions;
3. The enormous industrial expansion of the late '40s and early '50s created many more managerial positions than could easily be filled.

In response to this shortage, industrial corporations have created numerous types of executive and supervisory development programs. Usually the costs of these programs are justified in terms of meeting a felt need, or, to help ensure survival of the company by taking action to see that there is always a supply of trained replacements on hand to fill expected or unexpected vacancies in the key jobs.[1]

### How To Justify Costs

Can a firmer, more precisely stated, justification for the admittedly high costs of such developmental programs be formulated? It is our thesis herein that such a justification can be derived from a clearer understanding of the fact that the demands made by a job on an individual differ substantially in kind as well as in degree from level to level within a company. Therefore, the responses to such demands that are appropriate at one level are inappropriate at other levels. Helping a promotee to understand that new responses must be acquired to meet new demands will help him to learn the new techniques more quickly, more surely — and less painfully.[2]

*Job Demands*:— What demands does a production job make on a worker? (To simplify our discussion, we shall use a worker in a large-scale factory to illustrate our points. However, it should be easy for the reader to bring in other examples if such should be closer to his needs and experience.) Stated in most general terms, such demands are for: (1) steady and close attention; (2) quick, correct perception; (3) quick, correct reaction. This means that his attention and intelligence are entirely focussed on one machine or process, and that he works *entirely in the present.* If he is a good production worker, he is also steady in attendance, reliable, skillful, requires little supervision, or in short, has developed good work habits.

What different demands, now, does a foreman's job make on its incumbent? The primary change is that the foreman does much of his work in a different time dimension — the future. One of his major responsibilities is to plan work assignments for his men. From his knowledge of his machines, his men, and his schedules, he is expected so to assign the daily tasks in his section as to satisfy two different criteria, namely, to maximize production, and to distribute the work load fairly over his people.

Another major responsibility of foremen is to anticipate trouble in order to forestall it. He must be constantly on the alert to see who is running out of work, which machine has started to show a need for resetting, at what places bottlenecks are beginning to develop, and myriad other such details. The foreman's job is to react to such warning signals *before* the danger becomes acute.

For a good part of the day, then, the foreman acts as a leader *in the time dimension,* in that he is "out in front" of his workers by a lead of several hours. While out in front leading, he is planning, and, forestalling trouble.

*The Selection Process*:— How are workers selected for the job of foremanship? There are, of course, innumerable answers to this question. But there is one central thread that ties all selective techniques together, *viz.,* the work record of the prospective promotee. Stated negatively, no one gets promoted on a record of poor work, absenteeism, high spoilage rates, rules breaking, or the like. Stated positively, a worker who gives evidence of the traits of steadiness and reliability described above has at least met

*"To develop more fully in an individual the ability to solve complex problems in business management analytically and by re-synthesis of the analyzed elements, and simultaneously to help him increase his capacity for carrying responsibility."*

the universal minima for promotion. Hence, even if no other criteria of selection are applied, such a worker gets "a chance to try out" on a supervisor's job, or, he is given an opportunity to prove his ability to grow and to develop.

This is where the provisional foreman can be significantly aided by help on the psychological plane, through giving him an understanding of a) learning processes, b) the nature of habit-formation and habit-change.

Our man has *learned* to be a good, reliable, worker. Part of his learning has been through trial and error — or, more properly, trial until success. Part of his training has been derived from imitation of good workers and foremen he has had cause to emulate. Part has come from experience. The product of all three modes of learning is the good habits of work — steadiness, skill, and reliability — mentioned above.

Now, however, because he must meet new demands, he must form new habits. But many, if not most, of the people who preceded him in making this transition have formed these new habits intuitively, and therefore cannot articulate their learning from experience to help the new man in making his transition. A few, however, who have undergone the process can help him by pointing up the need for new habits, and, the reasons for shedding the old habits.

One such need arises from the fact that many new foremen feel psychologically insecure because they are habituated to physical activity. If a new foreman, however, understands the *reasons* for physical inactivity and mental alertness—namely, the need to plan and to anticipate trouble —which he cannot do if his attention is entirely devoted to one machine or process, it will be easier for him to overlay the new habits on the old. No longer will he feel that by being inactive he is "sticking out like a sore thumb." No longer will he be tempted to make the mistake — surely one of the most common among new foremen — of "pitching in" to help his work group get out their schedule.

This error of pitching in seems to the writers to be composed of two other errors — one is a desire to get back to the old habits of physical activity, and close attention and utter absorption in one machine (for these traits spelled success in his immediate past),[1] and a desire to show himself a "good leader" to his new group by helping them to get out their quota. In a crude or intuitive way he believes this pitching in will prove to his men that he is anxious to meet company schedules, but at the same time he will not "overwork" them.

**Re-identification**

This dimly felt intuitive need to secure the loyalty of his work force is a part of a process known to psychologists as "identification." Essentially, it springs from the gregarious nature of mankind, from the fact that men live and work in groups, and secure the satisfaction of many of their psychic needs from participating in group activity. In the United States, certainly one of the most important of all such group activities is found in the work place. When a person successfully identifies himself as a member of a group — in our example, an industrial production team — the goals and interests of the group become to a large measure the goals and interests of the individual. What helps the group is reflected in the positive reaction thereto of the individual member; whatever hurts the group is reflected in the negative, hostile, reaction thereto of the individual. Similarly, the group reacts *as a group* to an action toward one of its members either positively or negatively.

When a man is promoted from such a closely integrated group, these psychological ties that knit all together are necessarily ruptured. If our promotee stays in the group — but now as its leader — he knows intuitively that these ties will be altered somewhat, but without formal help he is unlikely to know in what ways and to what degree. Conversely, if he is assigned to a new group, he is anxious to establish such relationships as rapidly as possible, but without help he is likely to proceed either too quickly or too slowly in developing these psychological ties.

In either event, it is self-evident that among mature persons loyalty is a trait that develops slowly. Further, to use a cliche, "loyalty must be earned, not demanded." But the promotee can be aided in his personal development,

and in the cultivating of loyalty in his group, by careful coaching on the part of those responsible for supervisory development. These persons can keep a careful watch on the unfolding situation, and, by reason of their knowing the symptoms of psychological troubles that most commonly appear in such situations — that is, going too quickly or too slowly in cultivating these ties — can through prudent counseling assist the promotee in avoiding such dangers.

To sum up, this aspect of a supervisory development program would concern itself not with the development of technical or intellectual *expertise,* but rather with producing a sense of self-confidence through an understanding that the job of the supervisor requires him to work in the future for a substantial portion of the work day, which will necessitate his forming new work habits. Further, a supervisory job demands that he undergo a psychological transition of re-identification with a larger, less cohesive group.

**The Problem At The Executive Level**

Just as a supervisor finds more differences than similarities between his production and supervisory jobs, so does a new executive find that his promotion into management from supervisory ranks creates a need for many new responses to new job demands. Again, we make the point that these differences are qualitative as well as quantitative.

1. *Source*:— The source of this problem is found in the fact that large-scale modern industry (from which, it will be recalled, we are drawing our illustrative material) is largely a matter of teamwork. It is no more than a truism that "today no one makes anything by himself — not even a bobby pin." Rather, teams of men produce large quantities through division of labor and specialization. Teamwork, i.e., is essentially a large task divided into small elements, each element being done by a specialist who differs from the other specialists on the team. A familiar example would be found in a designer, a buyer, and a cutter in a garment factory.

To achieve effective teamwork two separate problems must be solved. One is the technical, and is usually associated with management engineering. It is the problem of analyzing the total task into elements (jobs) and then so synthesizing these elements as to achieve maximal production, minimal cost, or the optimal combination of these.

The other problem here is psychological in nature, is usually denominated "human relations," and is actually made up of two closely related but essentially different problems. The first of these is solved when a manager succeeds in developing feelings of mutual trust and confidence in his team. Teamwork would be impossible, that is, if each specialist felt the need to check up on the work of his teammates before he started his share of the work. Rather, he must *know* from repeated experience that he can rely utterly on his cohorts, and that he does not have to inspect the work of his predecessors before expending his talent on the work.[1]

The other aspect of this psychological problem is the inculcating of group goals in and for the team. As we saw above, this consists largely in developing in each individual on the team a strong sense of personal identification with the team so that the goals, objectives, and interests of the group and its members become commingled.

To solve these problems we need a manager who understands specialists, their backgrounds, their training, their outlooks and motivations, their value systems, and—perhaps most importantly of all — their lacks. For it is self-evidently true that in today's technology, one must pay a price for becoming a specialist. The price is this: in return for achieving depth of penetration in a relatively narrow field, one must give up breadth of coverage of other fields. Most young people, it may be added parenthetically, appear willing to strike this bargain, for its appears to be the consensus among persons in their early twenties that it is sound to specialize first, in order to get a good starting job in industry *as a specialist,* leaving the broadening to come with age and experience.

The manager who is to understand such specialists, blend them into a smoothly working team, and, above all, persuade them to make their goals the goals of the team, must be a man of rather formidable intellectual skills. But in addition, he must be able to achieve emotional *rapport* with the specialists he leads.

Lastly we must note the almost universally adopted policy of "promotion from within." For, even though we strip all other considerations from this decision, and look only at one consequence thereof, it is still self-evident that if many of our supervisors are to be promoted from our workers, and if almost all of our executives are going to be promoted from our supervisory (or staff specialist) levels, then we

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simply must develop their competence as fully as possible *before* they are asked to carry the heavy burdens of responsibility that are an inevitable concomitant of such positions in large-scale industry today. Experience has shown us that the capacity to carry responsibility develops rather slowly in most men; therefore, it is sound to start the developmental process early rather than late — or, while the potential promotees are at the specialist rather than generalist stage.

2. *The Solution*:— From these premises it follows that most top management posts must be filled by persons who were once specialists. Hence, we find numerous "Executive Development" programs, whose objective is to transform specialists into generalists. Such programs are carried on internally in the corporation or in cooperating programs between the company and a university's department or school of business administration. Indeed, this solution seems to have worked well enough to have caused the federal government to initiate such programs for both their military and civil services, even though this decision has necessitated their reversing an earlier policy of long duration against "on the job" training for promotion, at least as far as the civil service is concerned.

However, inasmuch as such programs necessarily take key men away from their jobs for substantial periods of time — and it is the consensus of most men involved in such work that it is essential to success to conduct such programs away from the customary appurtenances of the trainees' jobs — they are expensive. This expense is compounded when we realize that these trainees are usually the highest paid in their classifications.

### Justifying Costs

Justifying to shareholders and others the costs of these admittedly expensive programs becomes easier when it can be demonstrated that the nature of the demands made on individuals by jobs at the top management levels differ from the demands made by jobs at the middle levels of management. Satisfactorily to fulfill such demands, that is, a man must grow in his intellectual ability to analyze complex problems of business management into *all* of their component elements, to evaluate correctly all of these elements, both singly and in relation to all others, and then to solve the problems by creative, imaginative re-syntheses of all the significant elements in new solutions to the problems. In addition, he must develop his ability to carry increasingly heavy loads of responsibility, which the authors see as a combined effect of several causes, among them being strong motivating forces, successful on-the-job experience, an ability to reflect on successful experience in order to extract the fullest lessons therefrom, a strong, continuing curiosity, and other, less well understood, traits. Finally, he must undergo a psychological transition—from specialist to generalist—that in effect requires him to reverse the direction and trend of his entire life and work experience. This last change, we should add, is made especially difficult because we are requiring him to give up life responses that have been eminently successful up until this stage in his development, for, as we said earlier, one of the strongest learning methods is "trial until success," wherein one ceases experimenting as soon as he has found a successful (which usually means "workable") means to an end. Then, habit reinforces the successful pattern, making it very difficult to overlay a newly learned response on top of the older and now habitual response.

But undoubtedly the major demand on the individual made by the need to undergo a psychological transition is the change in self-identification, or, in the group with which the trainee had subjectively associated himself, and from which he had derived many, if not most, of the deep psychic satisfactions of his career in industry. For it is no longer a *department* that commands his loyalty, but the company. And, as we have seen, loyalties are the profoundest aspects of a mature person's character; further, they must be "earned, not demanded." Hence, they are difficult to change.

The formal goal of executive development can be stated in a sentence—to develop more fully in an individual the ability to solve complex problems in business management analytically and by re-synthesis of the analyzed elements, and simultaneously to help him increase his capacity for carrying responsibility. Somewhat less thoroughly understood is the psychological process through which one changes his identification from departmental to company-wide, or, makes the transition from specialist to generalist.

But if we achieve a minimal understanding of the need —created by the differing nature of the demands made by the jobs at different levels on the individual — to undergo this psychological change, we can at least make the transition easier and less costly. ■

**Kenneth K. Henning**

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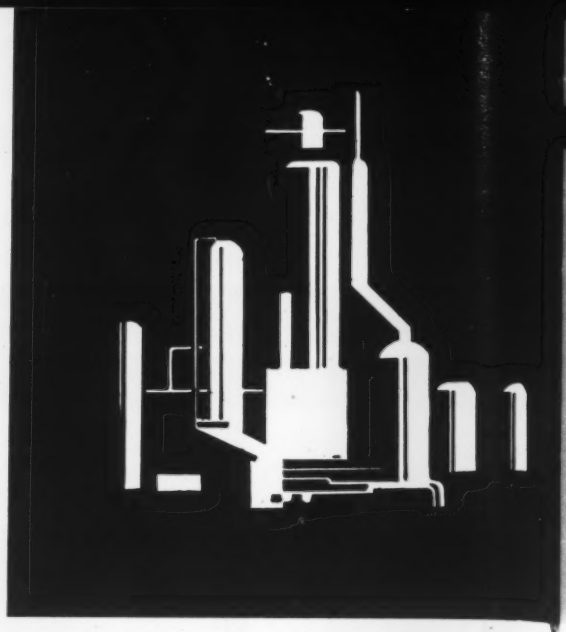

# Industry an

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LAST YEAR a manager in an engineering concern puzzled a number of people by employing a speech professor for the summer. This was a radical departure from the accepted company policy of hiring professors of technical subjects to perform purely technical operations in a summer work program. Associates questioned how men representing two such unrelated fields as speech and engineering could possibly do anything that was mutually rewarding.

The answer came when the manager confessed that his real goal was an independent audit. Eyebrows raised further when he blandly stated—with the professor's concurrence—that the commodity he wished to buy, more than anything else, was not the professor's knowledge but his ignorance. What he really wanted, the manager hastened to explain, was an audit of his particular engineering operation that would be independent of the preconceptions and prejudgments which sometimes arise from experience. Heretofore the professor had never had an opportunity to capitalize on his ignorance; he admitted that he couldn't resist so enticing a temptation.

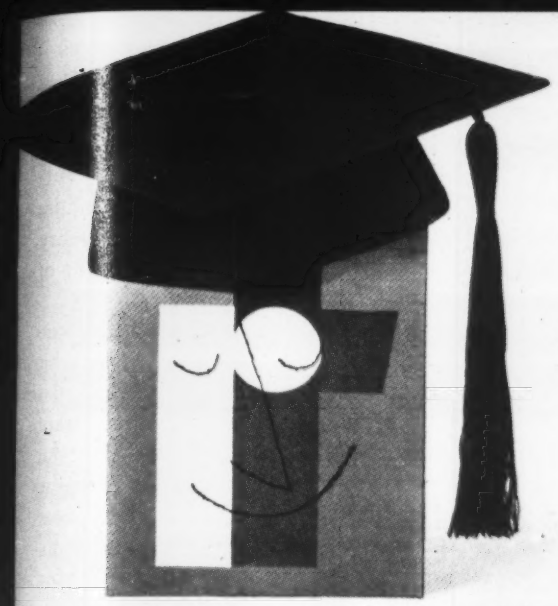
Employing college professors in industry during the summer is by no means new. More than 30 years ago, at least one company initiated a summer-professor program, stemming from its experience with earlier short summer conferences. In the summer of 1959 the College-Business Exchange Program, through fellowships by the Foundation for Economic Education, permitted 64 professors to scrutinize the management philosophy, policies, and procedures of 41 co-operating industrial firms, at a stipend of $800 for six weeks, plus travel reimbursement. Even in the recession summer of 1958 it sent 63 college teachers to 43 firms, and its high-water summer of 1954 saw 121 men visiting 72 companies. In the 12 years since the founding of this splendid program 625 companies have sponsored 969 fellows from 794 colleges or universities. Revising these data to eliminate all duplication of company, college, or man, the figures are still impressive: 845 professors from 354 colleges to 169 firms.

Clyde E. Work, in a survey conducted by the Relations with Industry Division of the American Society for Engineering Education (and published in the *Journal of Engineering Education* for January 1959), reported that 22 industrial firms and six Army and Navy agencies were planning to employ 531 and 680 college teachers in "formal" programs that summer, programs "intended to give the professor opportunities, beyond his individual job assignment, to gain a broad understanding of the company's philosophy and operations." Morevore, 46 companies offered "informal employment", in which the summer employee's "orientation within the organization is to be left mainly to the professor himself and his supervisor". Of the total of 73 firms, only three restricted applications to professors "from the area near the company's operation". Thus experience could be geographical as well as professional.

Definition of opportunity through the 28 "formal" programs is worthy of note. Fifteen based remuneration on the job assignment and the employee's qualifications, 10 on the college salary, one on a specified honorarium, and one on either assignment and qualifications or a fixed stipend. In addition, 16 firms offered a travel allowance; two, travel and housing allowances; two, travel, food, and housing allowances; and one, a cost-of-living allowance. Length of program varied from one to 18 weeks, averaging 10 weeks. Twenty-five firms offered a job on some company project; two, either such a job or an opportunity to study some facet of the company's operation; one, both job and study. The number of seminars planned by 20 of the 28 companies ranged from one to 22, with a mean of eight and a median of five to six. Other activities were proposed by 27 of the 28 firms: four, tours of facilities; one, luncheons with company personnel; seven, both of the foregoing; three, tours plus social and recreational activities; 12, tours, luncheons, and social and recreational events.

Of course, plans laid in September and reported in January often go awry in June. *The Journal of Engineering Education* survey in January 1958, showed 30 companies planning to employ between 471 and 649 professors that summer. A year later, however, Work commented: "1958 turned out to be a year of limited budgets, forcing many companies to reduce or completely give up the programs of faculty employment they had planned for last summer. Several organizations were not far enough out of the slump in September to venture any predictions for 1959".

Nevertheless, Work's conclusion appears to be war-



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By ... Civin

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*...ndependent Audit*

ranted: "Each summer there are a large number of opportunities for college faculty members to obtain employment in private industry or in government laboratories." College professors then, in large though not large enough numbers, are gaining industrial experience in the summertime. Hence, a significant question suggests itself: *Is industry using such programs to the maximum benefit of both company and professor?*

Let's assume for a moment the view of the professor. What dividend does he—should he—seek in summer employment? The Foundation for Economic Education Fellowship Program, rewarding as it is, is merely orienting. The professor looks at management from the outside, through a window which happily is two-way rather than one—but his experience is largely vicarious. If he wants to know how industry really operates, he must learn by doing. After the broad overview provided by the Foundation through executive interviews, he should dig into some specific low-level operation and do some honest-to-goodness work.

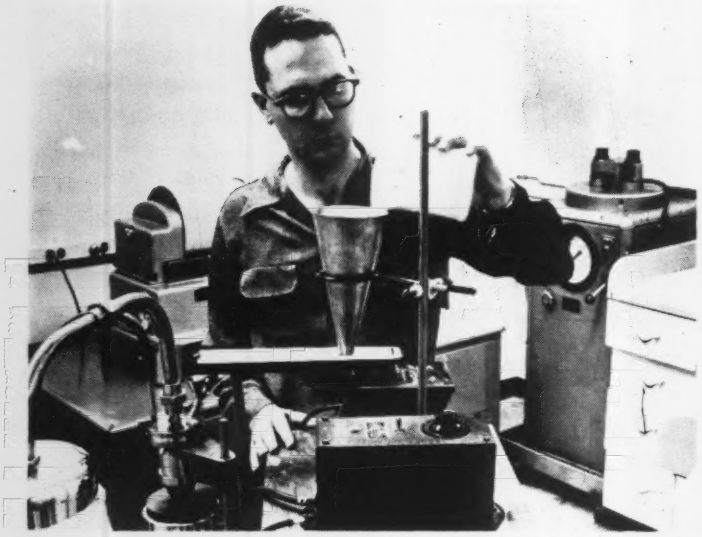
Here lurks a danger, however, epitomized in a *Herald-Tribune* Pearson cartoon in which one high school student is saying to another: "If you want a summer job, you better get it quick before the teachers grab them all." One university professor, who happened to be a talented draftsman, spent his summer in industry in sheer manual labor over a drawing board. The man's potential was never really exploited because he was too busy working on the more elementary projects in which the regular draftsmen had no interest. True, he learned a little about company procedures: but so little that he might as well have tended bar, pumped gasoline, or waited on table at a resort hotel — where at least he would have learned more about people. He did earn some money; and granted, supplementary income is by no means unimportant. But money shouldn't come first. If, as reported in "Life in These United States" in the June, 1958, *Reader's Digest,* a high school science teacher spent his summer at a nearby laboratory "dissecting plant life with a rototron", this lawnmowing developed only his sense of humor, certainly not his talent.

The summer professor in industry does derive certain benefits. He feels wanted, in a sense rarely felt in his routine institutional life. This is good for his morale. It's good for his college, too, to have one of its faculty members thus acquire prestige. It may publicize the college a bit, may tend to attract a few high-caliber graduate students, and may educate industry to collegiate stresses and strains—financial, administrative, curricular, instructional—an education some industrial managers acutely need.

Summer employment also contributes to the broad personal development of the teacher, to his maturation beyond the perimeter of his theoretical knowledge. The relaxing effect of such varied experience may well render him a refreshed teacher in the fall—a consummation devoutly to be wished, by his pupils at least. The transition from the isolation of his academic life to the intimacy of the industrial office may have a humanizing effect upon him. But all these dividends are more often stereotypes than realities. Desirable though they may be, they scarcely justify the program.

The reason for a professor's spending a summer in industry is sole and simple: he must learn something of direct benefit to his teaching content and skill He must glimpse the environment in which many of his students will ultimately live, prepare himself better to prepare them. If a summer offer does not promise this, he should reject the offer. But if he can find the right job in the right company under the right manager, three enormous, challenging opportunities confront him: he can confirm by check what he already knows; he can amend by test what he thinks he knows and doesn't; he can acquire by experience many things he never knew at all. And all this he can put to good use in the fall, to enhance and enliven the teaching task to which he has dedicated his life and his fortune. Nothing less should be his goal.

Let's turn to the dividend earned by industry and its managers. Industries often sponsor summer-professor programs for eminently wrong reasons. Notorious among these is the assumption that all college teachers urgently need indoctrination in "the American way of life". This becomes mildly amusing when directed to those who, for conscious reasons, elect to teach in free-enterprise private, rather than tax-supported public, institutions. Managers who cling to this stereotype should get better acquainted with more college



Many original and new approaches have come about by bringing the outside teacher into the factory to experiment.

professors — perhaps by hiring them in the summertime. Moreover, industrial management should realize that it is wasting its money when it pays thus to indoctrinate. If a professor's mind is a closed one, three months of industrial association will not pry it open very far.

Through a brand of osmosis impossible to describe, the professor by his sheer presence may catalyze a new kind of thinking, a previously unheard-of approach, a new set of standards and mores for the group of which he is one member for a while. But again we are dealing in stereotypes. Nor are these dividends, attractive though they may appear, sufficient to justify the program from management's point of view.

Whether industry gets its money's worth from the summer professor is a direct function of the task it assigns him. All too frequently, it puts the academician to work in the narrow band of his own specialization, constricting him rather than expanding him, delimiting his potential contribution to the company as well as the company's contribution to him.

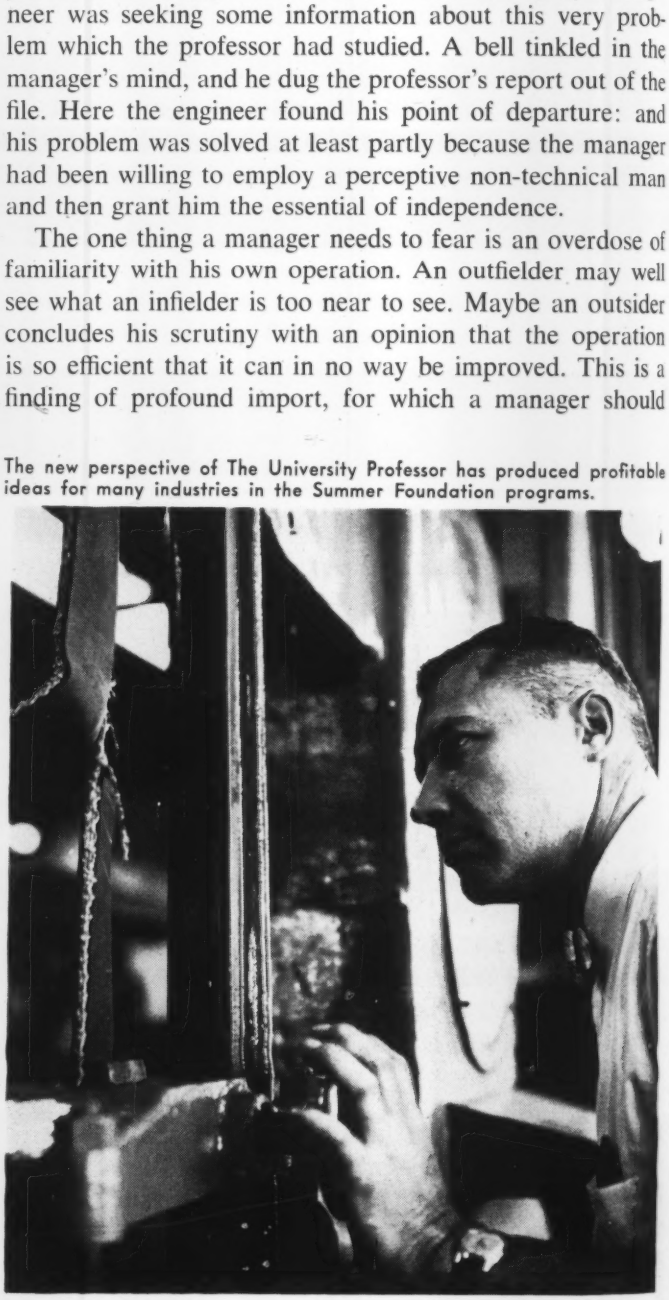
A mathematician who teaches courses in statistics is handed a problem in the application of statistical methods to quality control. A physicist is given a problem in heat transfer. A chemist is assigned to a project in corrosion and protection. A psychologist is asked to conduct an attitude survey. An economist is put on a forecast. A marketing man is assigned to customer research. A modern-language teacher is seated at a table where he translates articles from foreign publications. The lure of such assignments, from the company's point of view, is that they produce discernible, measurable outcomes—money's worth in too paltry a sense. The trouble is that the company is thus buying knowledge, when it ought to be buying ignorance.

Of course, the industrial manager who restricts his summer force to technical men typifies the extreme of this utilitarian attitude. Unfortunately, the consequences of such a policy are serious. One obvious result is the elimination of the liberal arts professors, whose specialties do not seem immediately relevant to industrial operations and techniques. In failing to tap such men, industry is regrettably neglecting those studies which undergird our whole society and its technology. Perhaps in these days of technological shortages it is justifiable to exploit whatever technical abilities can be uncovered. But is it sensible to establish a policy which implies that industry has no need for the insights of the humanities and the social sciences?

The tale of a quiet historian who joined a company one summer may illustrate the point. He looked around a bit in the unit to which his payroll number was assigned, detected an interesting little problem, and unobtrusively went to work on it. No one bothered him; his boss forgot all about him. At the end of the summer, he appeared in the doorway of the boss's office and handed him a single sheet of paper on which some suggestions were neatly typed. The manager read the paper, repressed an uncomprehending frown, assured the professor it was "nice to have him on board"—and filed the report. Several months later, a project engineer was seeking some information about this very problem which the professor had studied. A bell tinkled in the manager's mind, and he dug the professor's report out of the file. Here the engineer found his point of departure: and his problem was solved at least partly because the manager had been willing to employ a perceptive non-technical man and then grant him the essential of independence.

The one thing a manager needs to fear is an overdose of familiarity with his own operation. An outfielder may well see what an infielder is too near to see. Maybe an outsider concludes his scrutiny with an opinion that the operation is so efficient that it can in no way be improved. This is a finding of profound import, for which a manager should

The new perspective of The University Professor has produced profitable ideas for many industries in the Summer Foundation programs.



gladly pay. Much more likely, however, the outsider will uncover several—albeit minor—ways of strengthening the operation. This too should hearten the manager. For years financial officers have recognized the utility of an independent audit. Why haven't more engineering, marketing, manufacturing, and personnel managers filched this concept from their accounting friends?

The *modus operandi* of such an audit by a summer professor is simple — and the simpler it is kept, the better. Ideally, when the professor reports for duty, the manager should greet him, introduce him to the staff, lead him to a vacant desk in the middle of the maelstrom, perhaps show him where to sharpen his pencils. This and nothing else. Let the professor browse. Let him ask questions. When he does, answer them — even though they are, as inevitably they will be at the outset, somewhat ludicrous. Always remember: what is being purchased is ignorance.

Let the professor fabricate his own plan for his audit. Leave him alone: just assure him of an open door whenever he feels like inquiring or reporting. Tell him to speak up whenever the spirit moves him—any time, any place, to any person. Let him brainstorm. Let him define his own "need to know". Whenever he feels like actually working instead of observing, let him do it: but don't tell him when. He'll know, or soon find out, when a particular activity will teach him something he wants to learn.

The experience of one manager and one professor may serve to illustrate the last point. In the publications unit where the professor was to conduct his independent audit, one of the perennial projects was the preparation of business presentations intended to interest the customer in the company's product lines and technology. Since these presentations were given jointly with the marketing section and the project engineer, there were problems of responsibility, authority, and cost which had been unresolved in the past and occasionally had limited the effectiveness of the presentations itself.

**Chester J. Civin**

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***Mr. Civin served in the Air Force, and in addition to his B.S.S. degree, has done graduate work in Public Administration at New York University.***

**J. Calvin Callaghan**

***J. Calvin Callaghan is Chairman of the Department of Public Address at Syracuse University, and a consultant to the Light Military Electronics Department and the Defense System Department of the General Electric Company. Currently, he is conducting his 26th training program for G.E. He has served as a fellow of the Foundation for Economic Education. Dr. Callaghan earned both his A.B. and M.A. degrees in English at the University of Michigan and his Ph.D. at the University of Wisconsin. Before joining the Syracuse faculty in 1945, he taught at Lawrence Institute of Technology and Lehigh University.***

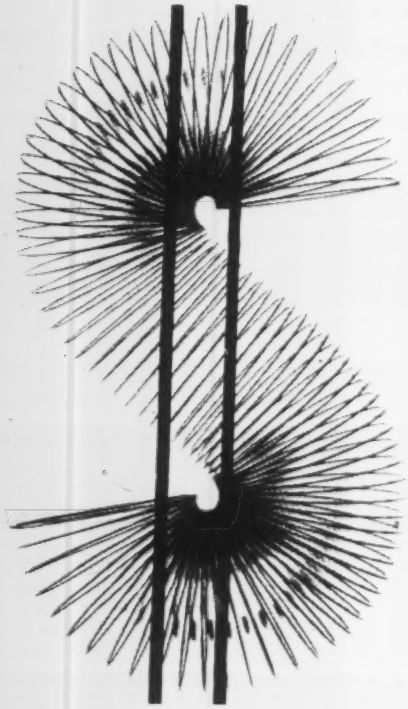
Shortly after the professor began his audit, he felt that this was one area which deserved further investigation. After some practical experience with a few presentations, he formulated a plan which he hoped would be a systematic approach to the establishment of authority and responsibility in these matters.

The practicability of this system was demonstrated the first time it was used at a large scale presentation. The independent auditor had devised a systematic approach which permitted centralization of both authority and responsibility in the hands of qualified personnel. And perhaps more important, his "no ax to grind" position resulted in universal acceptance of his scheme.

To conduct such an independent audit successfully, there are what the manager would call "specifications" and the professor, "prerequisites". The manager's organization must be basically a free society. He himself must make clear, by manner and by method, that every product of the audit will be listened to until it is fully understood. He must demonstrate the courage both to accept and to reject such products after examining them. When he pays for independence, he should demand it.

And after being paid for independence, the vendor should supply it. The professor must also pay allegiance to a free society, must exhibit the courage to speak his mind after appropriate investigation and reflection, must suffer no pangs of embarrassment when a suggestion generated out of his ignorance proves to be folly compounded. He must focus on *reporting* rather than *influencing*, with a modest humility—sometimes foreign to the classroom—which will constrain him to adapt to his role of auditor and recommender rather than decision-maker. He must be at once easy and difficult to convince.

Both manager and professor need the fortitude to make mistakes. Each must trust the other. If it be contended that such managers and such professors are rare, the effectual rejoinder is: if they are sought, they will be found. They should be sought. ■



# Financial Reporting

## ...*for Control or Creation*

by
John
Coughlan

PERHAPS the most obvious and important requirement of a good system of financial reporting is that it should relate results to the people who achieve the results. It should relate performance to responsibility.

### Locate the Decision Centers

Let us consider the problems of the large decentralized corporation. If the divisional breakdown is on a geographic basis, then the important breakdown of overall corporate results is on a geographic basis, for the decisions that spell more or less profit are made by the managers of these geographical divisions. If the corporation is divisionalized on a product basis, then breakdowns must be given on a product basis. As obvious as this point may seem, yet in the large corporation with its numerous divisions, its multiplicity of products, its staff and service departments, reports are often segmented in such a way that some segments present the results of not one person, one team, or one unit of the organization but rather the composite results of unrelated teams and efforts, while other segments present results unique to one group or organizational entity but are only a part of the results of that group or entity. Just as cost accountants attempt to accumulate costs by "cost centers" so the financial reports should report results by "decision centers."

### Don't Hold Executives Responsible for Costs Incurred by Others

Failure to report by decision centers is not as common as the error of allocating to divisions and plants costs that were incurred by executives in other organizational units. The commonest example of this zeal for allocations occurs in connection with central administrative and overhead expenses. In the top half of Exhibit I, corporate administrative expenses and advertising expenses have been allocated to the operating divisions, leading to the charge by Division I personnel that they are "paying the rent" since they show a pre-tax profit of $1,166,667 in contrast to a Division II pre-tax loss of $166,667. In the bottom half of Exhibit I, none of the corporate administrative expense has been allocated, and neither has that part of advertising expenses designed to create a "favorable corporate image." The divisions are only held responsible for their own selling and administrative expenses and for the advertising expenses directly related to their own products. It is apparent that both divisions made some contribution toward the corporate overhead and advertising expenses. For the manager or president of the divisions, this is a better presentation and one which assures them that the costs related to their own efforts will not be swamped in the allocated costs incurred by other organizational units. Under the presentation appearing in the top half, the president of Division II had little reason to put on a concentrated drive to reduce selling and administrative expenses since the expenses for which he was responsible and over which he had authority constituted only a small part of the total administrative, selling and advertising expenses charged to his operations. Under the preferable presentation in the bottom half of the Exhibit, the division is charged with no expenses that the division president has not approved.

Where corporate-level expenses can be related fairly directly to the mission of the divisions, some case can be made for allocations. Suppose that most of the time of the corporate officers is spent making decisions relating to production and sales problems and in supervising the efforts of the division managers. But even here where the organization is still highly centralized, there are dangers in attempting to allocate corporate level expenses. In the top half of

## EXHIBIT I

### Operating Statement

**NOT This**

| | Division I | Division II | Corporate |
|---|---|---|---|
| Sales | 20,000,000 | 40,000,000 | 60,000,000 |
| Less: Cost of Sales | 14,000,000 | 32,000,000 | 46,000,000 |
| Manufacturing Profit | 6,000,000 | 8,000,000 | 14,000,000 |
| Division Selling and Administrative Expense | 1,000,000 | 1,000,000 | 2,000,000 |
| Corporate Administrative Expense | 3,000,000 | 6,000,000 | 9,000,000 |
| Advertising Expense | 833,333 | 1,166,667 | 2,000,000 |
| Total Expenses | 4,833,333 | 8,166,667 | 13,000,000 |
| PRE-TAX PROFIT | 1,166,667 | (166,667) | 1,000,000 |

**BUT This**

| | Division I | Division II | Corporate |
|---|---|---|---|
| Sales | 20,000,000 | 40,000,000 | 60,000,000 |
| Less: Cost of Sales | 14,000,000 | 32,000,000 | 46,000,000 |
| Manufacturing Profit | 6,000,000 | 8,000,000 | 14,000,000 |
| Division Selling and Administrative Expense | 1,000,000 | 1,000,000 | 2,000,000 |
| Product Advertising | 500,000 | 500,000 | 1,000,000 |
| Total Divisional Expense | 1,500,000 | 1,500,000 | 3,000,000 |
| DIVISION CONTRIBUTION TO OVERHEAD AND PROFIT | 4,500,000 | 6,500,000 | 11,000,000 |
| Corporate Advertising | | | 1,000,000 |
| Corporate Administrative Expense | | | 9,000,000 |
| CORPORATE LEVEL EXPENSE | | | 10,000,000 |
| PRE-TAX PROFIT | | | 1,000,000 |

**Moral: Don't Allocate Expenses to Units That Don't Control the Expenses**

Exhibit I, these corporate level expenses were split on the basis of sales. More precise methods are available for certain departments such as purchasing and billing, but allocations of such overhead items as the president's salary and the cost of the treasurer's department are bound to be very arbitrary. An even worse fault of these allocations, however, is the fact that, whether or not central administrative expenses can be related to the operating divisions, the division managers rarely request these corporate-level services and are seldom in a position to turn them down or limit them. Holding the division manager responsible for expenses incurred by others and over which he exercises little influence can only encourage the attitude that the "figures don't really tell the story." It is better to let Division I argue, as it might in connection with the statement in the bottom half of Exhibit I, that its operations are more important to the company because little of the corporate overhead is related to its activities than to have the accounting department enter the controversy by assigning a part of these corporate expenses to the divisions which had nothing to say when they were incurred. The financial reporting department should leave the expenses (and the revenues) where it finds them.

### Make Meaningful Comparisons

#### Relate Inputs to Outputs

It is important that the reporting system make meaningful comparisons between inputs and outputs, between costs and revenues, between effort and achievement. For the corporation as a whole, probably the most meaningful measure of performance is return on investment, the relationship between income and investment.[1] For the sales department, important comparisons include the ratio of selling expenses and sales commissions to such measures of success as total sales and gross profit. (While the ratio of selling expenses to sales is a significant indicator of the success of the sales department, it does not indicate whether it is selling the most profitable lines; therefore, a measure that takes into account the profitability of the product mix such as the ratio of selling expenses to gross profit is sometimes even more significant.) For staff departments, comparing costs to performance is often more difficult and sometimes requires adoption of a non-financial measure of performance. Thus the cost of the purchasing department may be compared to the number of purchase orders issued to find the average cost per order. Even here, financial measures of performance, measures in which both the input and the output are in monetary form, are usually possible and preferable. For example, the cost of the purchasing department may be compared with the cost of items purchased. Always present is the danger of relating costs to activities rather than costs to results. Both costs and activities relate to inputs; it is much more important to compare such inputs with the result or product of these inputs. The ratio of the cost of the purchasing department to the number of hours worked in the purchasing department, for example, would not necessarily indicate that the department was becoming more efficient; the quantity of output achieved in that hour of work might also have declined. It is more important to assess results rather than effort. What was the cost per dollar of purchases, how much lower was the cost of items purchased than the list price of such items, and what trade discounts were obtained?

For some staff departments — the legal department, the public relations staff — the output is so difficult to measure or express in financial form that the use of a ratio of output to input is often not attempted. Even here, however, diligent research will disclose some meaningful measure of performance and efficiency. Government, particularly the Federal Government, is devising various measures of performance and ratios for the measure of efficiency for departments and agencies where the output is extremely intangible and difficult to identify. The problem which the corporation faces in measuring performance, particularly since performance is all directed to maximizing return on

[1] See Othel D. Westfall, "Use of Rate of Return on Investment," *Advanced Management*, January 1958, pp. 19-23; and James H. Rossell and Reuben E. Slesinger, "Rate of Return on Capital Employed," *Advanced Management*, September 1959, pp. 14-15, 23.

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investment, should be less difficult to solve. For a public relations department, for example, measures of performance such as number of favorable mentions per dollar of cost or number of lines of newspaper devoted to corporate activities per dollar of "pr" cost, while they leave much to be desired, are better than no measure of performance.

### Make Comparisons With Other Organizations, Current Budgets and Prior Periods

A ratio of output to input by itself means little. It is more important to know whether the ratio is better or worse than it was in prior periods, whether it differs favorably or unfavorably from the budget, and whether it compares favorably or unfavorably with that of other divisions and competitors.

For the overall corporate performance, a comparison is commonly made between the corporation and other corporations, particularly close competitors. To the extent that the overall goals of different corporations are comparable — particularly to the extent that corporations are in business to earn a favorable return on capital — a comparison of the rate of return earned is valid whether the comparison is with close competitors or with unrelated enterprises. If the purpose is not just to compare overall performance but also to identify some of the reasons for the differences in overall performance, it is essential that the comparisons be made with close competitors. Quite commonly, return on investment is broken into, or analyzed in terms of two other factors: the profit margin on sales and the turnover of capital.

Comparisons between actual data and budgeted data, while extremely common in many reporting systems, are only useful where the budget system has two important characteristics. First, the division or department whose results are being compared with the budgeted figures must have had a loud voice in the preparation of the budget figures. Otherwise, the executives whose operations are being appraised will shrug off unfavorable comparisons with budget by asserting that the budget officer wasn't sufficiently familiar with their operations. A second requisite of the budget system is that its adoption should be the occasion of considerable discussion and comment. Only if it receives spotlight attention when it is adopted will it reflect goals consistent with the potentials of the organizational units. If the adoption of a budget is largely a matter of filling in forms that are then filed away without comment or controversy, there is always the danger that budgets will not reflect attainable goals but will be set with a view toward providing a favorable comparison with actual figures at a later date.

Comparisons between current year's performance and prior year's performance are almost always valid and useful. Unlike comparisons with competitors, there is no question about the comparability of the organizations and little difficulty arises from diversity of accounting practices. Unlike budget comparisons, nobody can assert that prior figures represent unattainable objectives nor can they be set too low to provide a favorable comparison.

### Tell Enough But Not Too Much

Financial reports should disclose all relationships that are important to the decisions made by management, but this requirement does not mean they should be honeycombed with intricate details. To illustrate an area of reporting where important relationships are often omitted, consider the typical disclosure of purchases discounts earned. To illustrate the other sin, consider next the typical type of comparison between actual and budgeted figures prepared for staff departments.

### The Iceberg Report

Here's the manner in which purchases discounts are handled in many, perhaps most, income statements:

| | 1959 | 1958 |
|---|---|---|
| . | . | . |
| . | . | . |
| . | . | . |
| Operating Income | 253,000 | 312,000 |
| Add: Purchases Discounts Earned | 14,000 | 10,000 |
| Net Income Before Tax | 267,000 | 322,000 |
| . | . | . |
| . | . | . |

Statements such as this may well be characterized as iceberg reports. The purchases discounts figure is only part, and not necessarily the most important part, of the iceberg. It might appear from this statement that the amount of purchases discounts earned has increased significantly from the prior year, and that the efficiency of those responsible for paying bills within the discount period had increased significantly.

Perhaps the full picture is as follows:

| | 1959 | 1958 |
|---|---|---|
| Purchases discounts earned | 14,000 | 10,000 |
| Purchases discounts lost | 23,000 | 15,000 |
| Purchases discounts available | 37,000 | 25,000 |
| Percent of purchases discounts taken | 38% | 40% |

From this schedule, it is apparent that the purchases discounts lost are indeed the dangerous, submerged portion of the iceberg. The purchases discounts taken are only a portion of the discounts available, and furthermore the portion has declined from 40 per cent to 38 per cent. The only reason those responsible for paying the bills of the company appeared to have done better in 1959 than in 1958 was that the discounts available from its suppliers had increased considerably. (Perhaps tightness in credit conditions had led to the offer of substantially better discount terms in an industry from which the above enterprise obtained the majority of its materials and supplies.) The income statement of this company is presenting an incomplete and misleading picture.

This misleading picture can be corrected by supplementing the income statement by the above schedule of discounts earned, lost and available, or the full disclosure can be built right into the income statement by a presentation such as the following:

| | | 1959 | | 1958 |
|---|---|---|---|---|
| Operating Income | | 253,000 | | 312,000 |
| Add: Purchases discounts available | 37,000 | | 25,000 | |
| Less: Purchases discounts lost | 23,000 | | 15,000 | |
| Purchases discounts taken | | 14,000 | | 10,000 |
| Net Income Before Tax | | 267,000 | | 322,000 |

Whatever the presentation, it is important that the figure for discounts taken be supplemented by either discounts lost or discounts available.[1]

### Avoid The Pitfalls Of Accounting

As long as the amortization of past costs and the careful matching of past costs with future receipts remains the principal activity of the accounting department of the modern corporation, so long will financial reports be cluttered with misleading and meaningless figures.[2]

### Distrust Cost Accounting

Perhaps the prime source of misleading figures in the manufacturing enterprise is the tortuous and involved process known as cost accounting. As an example of the misleading inferences that can arise from common practices in cost accounting, consider Exhibit III. From the absorption cost version of the income statement appearing in the middle of the exhibit, it would appear that January was a better month than February. A look at the underlying figures reveals, however, that costs and sales prices were identical in both January and February and that sales were higher in February. Since the accountant uses sale as his criterion of profit recognition, how can it be argued that with both costs and prices identical in the two months, more profit is earned in January when sales are lower than in February? Furthermore, those familiar with break-even analysis will note that the break-even point occurs when the volume of sales is 10,000 pounds per month. How can January sales volume, show a profit, and how can February sales of 11,000 pounds, a volume well in excess of the break-even volume, fail to show a profit?

[1] *Accounting Reports for Management* (Englewood Cliffs: Prentice-Hall, Inc., 1957), Chapter 1.

[2] I recently proposed a new approach to accounting that would not involve this detailed matching of costs and revenues. See, "Industrial Accounting," *Accounting Review*, July 1959, pp. 415-28. It involves no depreciation accounting and no inventory pricing.

## EXHIBIT II

XYZ CORPORATION AND SUBSIDIARY COMPANIES
STATEMENT OF EXPENSES CHARGED TO OPERATIONS
FOR THE 8 MONTHS TO AUGUST 31

*Before Lewis*

| | | % to Grand Total |
|---|---|---|
| Clerical Departments | | |
| MAIL OPENING | $ 642,712.19 | 6.43% |
| ENTRY | 300,217.81 | 3.00 |
| INDEX | 747,862.41 | 7.48 |
| PRICING | 810,419.01 | 8.10 |
| ORDER CLERICAL TOTAL | $2,501,211.42 | 25.01% |
| ADJUSTMENT | 417,006.43 | 4.17 |
| CREDIT | 127,964.81 | 1.28 |
| ADJUSTMENT CLERICAL TOTAL | $ 544,971.24 | 5.45% |
| CLERICAL TOTAL | $3,046,182.66 | 30.46% |

*After Lewis*

| | EXPENSES 8 MONTHS TO AUGUST 31, 1957 | |
|---|---|---|
| PARTICULARS | AMOUNT | % |
| Mail Opening | 642 712 | 6.4 |
| Entry | 300 218 | 3.0 |
| Index | 747 862 | 7.5 |
| Pricing | 810 419 | 8.1 |
| Order Clerical | 2 501 211 | 25.0 |
| Adjustment | 417 006 | 4.2 |
| Credit | 127 965 | 1.3 |
| Adjustment Clerical | 544 971 | 5.5 |
| CLERICAL TOOL | 3 046 182 | 30.5 |

Morale: Make it Readable

The culprit of this reporting mystery is the traditional system of cost accounting sometimes referred to as absorption costing. The computation of the cost of sales in the two months may be seen from the following:

| | January Production | | February Production |
|---|---|---|---|
| | Sold In January | Sold In February | Sold In February |
| Variable Costs | $130,000 | $130,000 | $13,000 |
| Fixed Costs | 10,000 | 10,000 | 20,000 |
| COST OF SALES | $140,000 | $140,000 | $33,000 |
| QUANTITY SOLD | 10,000 lbs. | 10,000 lbs. | 1,000 lbs. |
| COST PER POUND | $14.00 | $14.00 | $23.00 |

The first column gives the January cost of sales of $140,000 while the last two columns give the breakdown of the February cost of sales of $173,000 between January production sold in February and February production sold in February. Note that the fixed costs (costs like rent and depreciation that do not vary with volume of production) were spread over 20,000 pounds of production in January with half of this production being sold in January and half in February. In contrast, February fixed costs were spread over only 1,000 pounds of production all of which was sold in February. Consequently, the cost per pound of the January production was only $14.00 while in February it was $23.00. Referring again to Exhibit III, it will be apparent that the reason for the poor February showing is related to this cost of sales figure. While February sales of 11,000 pounds exceeded January sales of 10,000 pounds by only ten per cent, February cost of sales was $33,000 or twenty-four per cent higher than in January.

The accountant is not completely helpless in a situation like this. A system of cost accounting known as "direct costing" (only the variable costs are considered product charges and are included in the inventory costs with the fixed costs being treated as period charges and charged to operations in the period incurred) would produce the income statement appearing in the lower portion of Exhibit III. This comparative income statement does show results consistent with both common-sense and the logic of break-even analysis. January with a break-even sales volume of 10,000 pounds does "break even." February with sales in excess of the break-even volume does show a profit.

This illustration was not employed to sing the praises of direct costing in contrast to absorption costing but rather to give one of many possible examples of cost accounting methods that can produce results that are completely capricious and misleading. The busy executive who receives the reports of the accounting department rarely has the time or inclination to delve into the details behind these figures and is often unaware of the pitfalls of absorption costing, joint and by-product costs, depreciation methods, inventory pricing, interdivisional transfers and a whole host of other dangerous areas in cost accounting. Those who prepare the financial reports must recognize when a particular accounting method produces misleading figures and must adjust their financial reports accordingly.

EXHIBIT III

ABSORPTION COSTING V. DIRECT COSTING

| | January | February |
|---|---|---|
| Opening inventory | 0 lbs. | 10,000 lbs. |
| Production | 20,000 lbs. | 1,000 lbs. |
| Available for sale | 20,000 lbs. | 11,000 lbs. |
| Less: Sales | 10,000 lbs. | 11,000 lbs. |
| Closing inventory | 10,000 lbs. | 0 lbs. |

In both months, fixed costs (those that do not vary with volume of production) are $20,000, variable costs are $13 per unit and sales price is $15 per unit.

Income Statement — Absorption Costing

| | January | February |
|---|---|---|
| Sales | 150,000 | 165,000 |
| Less: Cost of sales | 140,000 | 173,000 |
| Gross margin on sales | 10,000 | (8,000) |

Questions:
1. How can January with lower sales than February have a higher profit?
2. How can January with break-even sales of 10,000 lbs. show a profit?
3. How can February with sales in excess of the 10,000 lbs. break-even volume show a loss?

Income Statement — Direct Costing

| | January | February |
|---|---|---|
| Sales | 150,000 | 165,000 |
| Less: Cost of sales — direct costs | 130,000 | 143,000 |
| Gross margin before fixed costs | 20,000 | 22,000 |
| Less: Fixed costs | 20,000 | 20,000 |
| Gross margin on sales | 0 | 2,000 |

These results are consistent with both common sense and break-even analysis.

Moral: Distrust Cost Accounting

### Conclusion

Financial reporting should be a creative activity. It is intended not to implement some narrow and negative concept of "control," but to encourage positive accomplishment and to facilitate the search for new solutions to old problems. Such an objective requires creative talent, not only on the part of those who use the reports, but also on the part of those who prepare the reports. Reports that are hackneyed and stereotyped are soon filed and forgotten. Financial reports that are quick to recognize changing needs, reports that present the old figures from new points of view, reports that are not afraid to depart from fixed formats and are willing to scrap, on occasion, long-standing habits of presentation, such reports remain the subject of continuing analysis and aggressive action. Until recently, American homes were rectangular in shape, divided into numerous rectangular rooms by walls, and with floors having only one level. In recent years, homes have been built in spherical shapes, with little or no division into rooms, and with floors of various levels. These modern homes have provided beauty and comfort unknown to the home owners of former years. Similar experimentation is almost unknown in financial reporting. Couldn't financial reporting serve new needs and provide new insights into American business if it experimented with the monetary unit, if it sometimes scrapped old formats, and if it sometimes scrapped the traditional financial statements in favor of statements designed to meet new needs? ■

# A Report on the Recent S.A.M. Survey

By HENRY A. SINGER, *Managing Editor*

Now with the largest survey of them all, the National Elections, completed, some of the readers may want to turn to another survey that may also prove interesting. We are referring to the first 180 responses to the questionnaires in the August and September issues of the Advanced Management Magazine. The responses should prove very helpful and they tell us what you and other managers have found useful.

## What You Did and Didn't Like

The most popular subject matter turned out to be Management Development. We had over 118 favorable choices in this category, by far ahead of any other subject.

The least popular subject turned out to be advertising. This, of course, comes as a blow to the editors of Advanced Management who were hoping to increase advertising markedly in future editions. Perhaps we can assume that the negative choice for advertising was only with regard to the subject matter of the articles and not to the increased frequency of advertising in the pages of the magazine. Along with advertising, the field of marketing was picked as one of the least desirable subjects. Since advertising and marketing are closely allied, the combined responses make a total of 142 negative choices. How do our marketing and advertising readers feel on this subject?

The table below shows some of your other likes and dislikes.

### TYPES OF ARTICLES

**Most Preferred (First 3 choices or checked)**

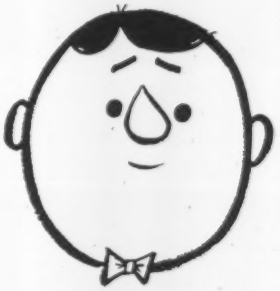
| | |
|---|---|
| Management Development | 69% |
| Management Improvement | 49% |
| Organizational Planning | 47% |
| Management Organization | 38% |
| Industrial Engineering | 37% |
| Procedures | 28% |
| Personnel | 21% |

**Least Preferred**

| | |
|---|---|
| Advertising | 43% |
| Health | 37% |
| Marketing | 35% |
| Time & Motion Study | 32% |
| Literary Material | 32% |
| Human Interest | 29% |
| S.A.M. | 23% |
| Office Management | 20% |
| Engineering | 19% |
| Operations Research | 18% |
| Salary Administration | 17% |

Three-quarters of these readers think the subject matter generally excellent or good. The healthy majority think well of the readability and technical quality of the articles.

More than a third of you feel that our coverage of S.A.M. activities is weak. Almost as many complain about the lack of diversity of material in the magazine. The editors have been attempting to meet this criticism in recent issues and hope to do even more in issues to come.



### INDUSTRIES REPRESENTED

| | |
|---|---|
| Manufacturing | 112 |
| Professional Services | 21 |
| Government | 19 |
| Commercial or Service Industry | 10 |
| Educational | 10 |
| Public Utility | 5 |
| Contracting—Building, Construction | 1 |
| Student | 1 |
| AFL-CIO Representative | 1 |
| Total Responses | 180 |

By far the largest work category of our respondents are in manufacturing. The responses brought out among other interesting activities, that of an AFL-CIO representative and a researcher in the Atomic Energy Commission. If this is representative of other readers, it gives a scope to the readership that we had not imagined before.

### MAJOR FUNCTIONS REPRESENTED

| | |
|---|---|
| Administration | 65 |
| Engineering | 30 |
| Industrial Relations, Personnel, Public Relations | 16 |
| Production—Planning, Scheduling, Control, Inspection | 14 |
| Finance, Accounting | 10 |
| Industrial Engineer | 10 |
| Educational—Professor, Instructor, Teacher, Librarian | 8 |
| Government | 8 |
| Manufacturing (Line Operation) | 7 |
| Sales, Advertising, Installation & Service | 6 |
| Mgmt. Consultant | 4 |
| Material Handling | 1 |
| Office Management | 1 |
| Responses | 180 |

Most of the respondents appear to be in administrative work with many in engineering. The overwhelming majority (83%) have had college or graduate school training. Almost half of the group receive salaries between $10,000 and $15,000, with about one-fourth below $10,000, and one-fourth above $15,000.

### SALARY CATEGORY

| | |
|---|---|
| Below $10,000 | 28% |
| $10,000-$15,000 | 46% |
| $15,000-$20,000 | 18% |
| Over $20,000 | 8% |

Department Heads appear to be the largest single specialty. However, there were 6 owners of companies, 5 partners, 5 Presidents and 5 Vice Presidents represented in this first batch of responses.

### SIZE OF COMPANIES REPRESENTED

(Number of Employees)

| | |
|---|---|
| Over 5,000 | 14% |
| 1,000-5,000 | 28% |
| 500-1,000 | 16% |
| 100-500 | 22% |
| Under 100 | 17% |
| Unclassified | 3% |

We were mildly elated to note that among the respondents over 50% only got a readership of the magazine of one or two. However, our enthusiasm soared when we realize that almost 20% indicated the magazine had over 5 or more readers per issue. We trust our advertising promotion persons will make an effort to exploit the latter figure. We have withheld comment on several phases of the above results where they do not appear statistically significant in view of the size of this initial sample. However, it is our hope that readers who may differ with the consensus of those who have responded to the questionnaire will be moved to send in their opinions. In order that we may have the considered and cumulative judgment of others who did not have an opportunity to complete the questionnaire, a brief note will be most welcome.

Frank G. Atkinson (c.) president, Joseph Dixon Crucible Co., Jersey City, and past S.A.M. National Treasurer, receives the Society for the Advancement of Management's "Professional Managers Citation" at the society's Northern New Jersey Chapter at the Hotel Suburban, East Orange, in September, 1960. Making the presentation (l. & r.) are Phil Carroll, professional engineer, Past National President, and James Newsome, production manager of Johnson & Johnson's Chicago division and S.A.M. National President. Mr. Atkinson received the award for contributions "to the cause of management and civic affairs."

# IN BASKET

## Advanced Management Goes To Nepal

**An interesting note was received by Executive Director Walter Mitchell from a former colleague, Carl S. Coler, Training Officer for the U. S. Mission to Nepal. In part he writes:**

**"It has been sometime since I have seen a copy of *Advanced Management*. Thank you for sending it. It has advanced too. Viewed from this distance, the United States, in management, towers like Mount Everest above the plains. It happens, however, that there are a lot of plains in the world; some not so far away. The plains depend on the mountains, assisted by the force of gravity, for their fertility.**

**"If you will send a few sample copies of the magazine, some reprints of articles and some promotional information, I'll try to get you a few subscribers in Nepal and perhaps in time a chapter."**

* * *

## Creative Retirement

*An interesting article in Works Management Magazine, a British publication, suggests a more creative use of skilled retired persons. The article urges methods of securing a continuing interest in life, the absence of which, is one of the most serious drawbacks to retirement.*

*It is suggested that the keen craftsman might continue his interest by giving part of his time to the fascinating and ever-new results of scientific research in his particular industry, both as regards materials and methods of production.*

*Cost of establishing something along these lines would not be great, and could possibly be met by individual firms, or organized by the industry concerned.*

# University Division News

*By HAROLD FISCHER, President*

"MANAGEMENT Problems in the Engineering Organization" was the theme of the very successful seminar presented jointly by the Northrop Institute of Technology and the recently organized University Chapter of S.A.M. in the institution. On this occasion, Ernest Samson, Vice President, Special Projects, Los Angeles Senior Chapter, presented the charter of this new chapter to Dr. Kenneth L. Strite, Dean of the College of Engineering, Professor John R. Evans, Faculty Advisor, and James Fuller, Student President, and his fellow officers.

This was a distinct achievement — a successful seminar put on by a new chapter, and an illustration of the value to an institution of an active, well organized student chapter. It was a great occasion and we predict a bright future for this chapter.

Dr. H. Lawrence Hall, Professor of Management, University of Southern California, and Vice Chairman of the Performance Awards Committee of the University Division of S.A.M., was the chairman of the seminar. We pay tribute to Dr. Hall for the important part he played in the development of the chapter and in the handling of the conference. Professor Evans informs us they are planning to make this seminar a semi-annual affair because of its great acceptance.

Dr. Hall also has been very active in promoting the University Chapter program in the Los Angeles metropolitan area with great benefit for the chapters, the students, business, and the community. On December 3, the eight student chapters in the Los Angeles area will have a combined meeting with an expected attendance of over 400.

We extend a warm greeting to the first new Chapter to be organized this Fall at Northern Illinois University, DeKalb, Illinois. Already they have indicated that they are on their way to an outstanding program and an interesting and profitable year, with Dr. Ralph S. Novak the Faculty Advisor.

We are indebted to H. O. Wood, J. L. Kennedy and their associates in the Clearing Senior Chapter for their interest in the work of the University Division and for the wonderful support they have given and, I am sure, will continue to give this new member of S.A.M.

We also welcome into our growing family of University Chapters the new Chapter at Lynchburg College, Lynchburg, Virginia. The inauguration of this chapter was the result of the fine efforts of Professor Thomas R. Kelly and his student associates. Mr. Milton Kay of the Richmond, Virginia Senior Chapter, presented the charter with Dr. Orville Wake, President, and Dr. John M. Turner, Dean, Lynchburg College, and Professor Thomas Berry, Faculty Advisor, and Bob Marshall, student president of the Richmond University Chapter in attendance. S.A.M. lapel pins were given to each charter member. Dr. Wake welcomed the visitors and expressed his views on the value of the Chapter to the College. Yes, Dr. Wake, you will be proud of this S.A.M. chapter for I am confident it will make a significant contribution to the educational life of the institution with the leadership of Professor Kelly.

Mr. Kay announced that the Richmond Senior Chapter plans to make a $50 award along with an appropriate medal each year to the most promising Junior in the three chapters in the state of Virginia, the University of Richmond, College of William and Mary and Lynchburg College. Congratulations! This plan certainly will provide the means of encouraging and rewarding outstanding performance.

**Northrop Institute of Technology: (L-r) Charles Landers, Ralph Sheheen, John Holland, Kenneth L. Strite, NIT Dean of the College of Engineering, John R. Evans, Asst. Professor of Business Administration and SAM Faculty Advisor, James Fuller, President of the SAM Student Chapter, NIT, Lamar Fransen, Ed Edminister, Gary Thorley, Richard Bourke, Phillip R. Snelgrove, Ned Engeman.**

Charter Presentation, Lynchburg College: (L-r) Professor Thomas A. Kelly, Faculty Advisor, Robert Marshall, Pres. Univ. of Richmond Student Chapter, Wayne Bard, President Lynchburg College Student Chapter, Milton G. Kay, Treas. Richmond Chapter, Thomas S. Berry, Faculty Advisor, Univ. Richmond Student Chapter.

Something new has been added. Fifty-six applications for charter membership in the new chapter in the French-speaking University of Montreal, were received from J. P. Trudel, organizer, who noted: "These pioneers were taken among Commerce students but we hope the future will see students of other faculties, mostly Engineering, join us." Already they are on their way to a successful future. Professor Guy P. Archambault is the Faculty Advisor.

Welcome aboard — we are pleased to add to our growing University Chapters this new organization. Many thanks to Peter Arbour, J. P. Trudel, Gordon Campbell, and all the fine people in the Montreal Chapter for their great support.

Now the Newsletters of our chapters will appear in French as well as in English and Spanish as heretofore. The University Division is really spreading out.

The Pennsylvania State University Chapter conducted their second successful annual Conference on October 22. The theme of the Conference was the "Social and Political Responsibility of Businessmen". In addition to the main conference sessions at the luncheon and dinner, a series of small group discussion meetings were conducted by prominent business men and educators in which they examined particular problems incident to the main theme of the Conference. It was our pleasure to participate in the conference and to bring greetings to the group from the University Division. It is this type of Conference that brings business executives and business students together for the exchange of ideas in which all benefit. Congratulations to Professor Rocco Carzo, Faculty Advisor, Paul Lechner, Student President, and all who contributed to the success of the affair.

Carl B. Genrich of the Indianapolis Senior Chapter, and Chairman of the Senior Chapters Advisory Committee, has already started the ball rolling with his committee. Carl is a man of action and I know our whole program will be strengthened with ideas and suggestions that Carl and the members of his committee will produce. Yes, this is a cooperative venture in which many can participate and from which all can benefit.

ANOTHER GREAT YEAR IS IN PROSPECT.

# Management • Bookshelf

## Management's Mission in a New Society

Edited by: Dan H. Fenn, Jr., Harvard Graduate School of Business Administration
Published by: McGraw-Hill Book Company —1959

Harvard brought together a dazzling array of talent for the 50th anniversary of its Graduate School of Business. Historians, educators, politicians, and business men were brought together in a sort of intellectual arena where it was difficult for the reader to distinguish between the gladiators.

My reading of the book led me to the conclusion that it was the conference and not the participants who ended up somewhat dismembered and disjointed. Nevertheless, to any good intellectual cannibal, this is a tasty and fascinating dish.

Perhaps this can be demonstrated by a series of phrases quoted from the participants.

*Donald David*, from his rich combination of educational and corporate management experience, offers the interesting suggestion that a corporation should have someone in the organization "who acts as its public conscience . . . He should be a major officer, reporting to the head of the organization and able to influence policy when and where it is made."

One of the most stimulating contributions came from *Erwin D. Canham*, successful business man and influential editor, leader of the U. S. Chamber of Commerce. "I observe that neither executive management nor Boards of Directors have evolved an adequate system of accountability to the ultimate ownership . . . The business man often has a binding and inhibiting sense of his own virtue."

Prof. *Peter Drucker* explores an interesting line of thought under the heading, "Managing the Educated." He notes that, "for the first time in history . . . people who have finished high school constitute more than half of our total labor force, including those employed in agriculture . . . twenty years hence one out of every three people gainfully employed in this country is likely to have attended college if not graduated." He asks whether it is scientific management to "try to make the job as simple, repetitive, or highly organized as we possibly can . . . there is plenty of evidence that young people in Detroit, Flint or Schenectady simply do not want assembly-line jobs and will take them only as a last resort and with a deep consciousness of frustration and defeat." Having defined the problem convincingly, he proceeds to explore possible solutions.

Professor *Edmund Learned* of Harvard annunciates a business man's creed that almost seems to belong in a prayer book. "There is a spiritual significance to every man's work and especially to that of leaders of men . . . I need not fear the burden of responsibility . . . I can draw on other men's expertness, points of view . . . All I need to do is to reach out for these resources . . . possess a genuine desire to listen . . . I have faith in this process and in my ability to participate in it with an open mind . . . We are likely to achieve better answers than I can alone. I will attempt to fill my own personal destiny and do my share of God's work in this way."

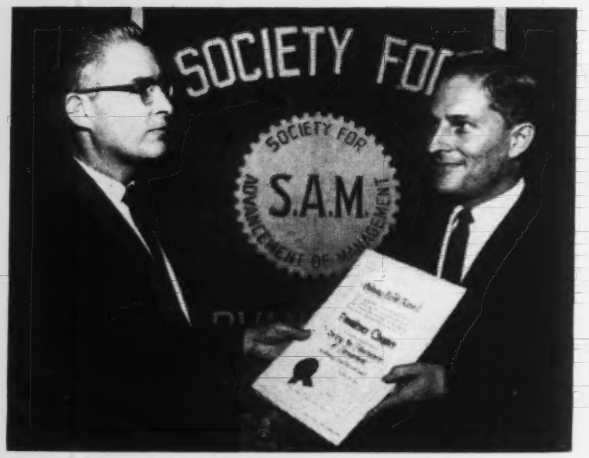
Taken as a whole, the book is stimulating and it is divided up into small enough doses so that each can be swallowed easily in one evening by a tired business man. It is recommended reading.

W. M. Jr.

Hamilton Watch Award Presentation: (L-r) Peter Monk, Student Co-ordinator Montreal Chapter, Bruce Winter, President Montreal Chapter 1959-60, Colin Perry, President Montreal Chapter 1960-61, Arthur Dalfen, President McGill Chapter 1959-60, Jon Silverman, President McGill Chapter 1960-61.

# Report on the 1960 Fall Conference

Accepting the coveted Harrington Emerson trophy for the Binghamton Chapter, first place winner in the Chapter Performance competition, is Jack Feeney, Chapter President (left), and Darrell Piersol, Past President. Looking on (right) is Walter Mitchell, Jr., S.A.M. Executive Director. The Binghamton Chapter made a "clean sweep" in also winning the President's Award.




For the second consecutive year, the Providence Chapter captures the Ordway Tead Award, as second place winner. Here, Hezz Stringfield (left), S.A.M. Vice President-Secretary, presents the award to Fred Fenger, Chapter's Vice President—Conferences.

Third Place Award goes to the Knoxville Chapter. Claude Wahli, right, Alternate National Director, receives banner from Mr. Stringfield.

Montreal Chapter is winner of Fourth Place Award and four special awards for quality of program announcements. Bruce Winter, right, Chapter's Past President, accepts the awards.

At the Awards Luncheon on Saturday, October 29, at the Hotel Biltmore in New York City, the Remington Rand Performance Awards were presented by John T. Jackson, Vice President, Remington Rand Division, Sperry Rand Corporation, to the following chapters in recognition of their outstanding programs of educational activities during the 1959-60 academic year. GOOD ORGANIZATION, PLANNING AND CONTROL, WITH DYNAMIC LEADERSHIP, PRODUCED THE RESULTS. Loyola University—Chicago, New York University—School of Commerce—Evening Division, Ohio University, and University of Maryland, were tied for first place with a perfect score. New York University—School of Commerce—Day Division, Auburn University, LaSalle College—Evening Division, Purdue University, Roosevelt University, St. Norbert College, and University of Houston followed in order.

In addition, chapter banners and citations were presented to Boston College, Louisiana State University, Georgia Institute of Technology, and Indiana University chapters, while the "Honorable Mention" citations were received by University of Wisconsin—Milwaukee, and Rider College Chapters.

The chapters that earned the Newsletter Award of Merit for their contribution to the advancement and understanding of the principles of the Society through their newsletters were: Georgia Institute of Technology — NORTH AVENUE JOURNAL; LaSalle College—Evening Division—S A M EVENING MANAGER; Louisiana State University—S A M NEWSLETTER; New York University—School of Commerce—Day Division — THE HIGHLIGHTER; OHIO University — THE QUEST; Rider College—THE S A M LAMPLIGHTER; Roosevelt University — MANAGEMENT ADVANCES, and the University of Maryland with THE EXECUTIVE. Loyola University of Chicago — MANAGEMENT MIRROR; University of Houston — THE HOUSTON MANAGER; and the University of Wisconsin—Milwaukee—TODAY'S LEADER, received honorable mention.

Special Activity Merit Awards were presented to the following chapters in recognition of unusual and unique achievements for which adequate credit is not provided in the Performance Awards Plan; Auburn University — COST CONTROL SEMINAR; Louisiana State University — COLLEGE EMPLOYMENT CONFERENCE; Loyola

L. to R.—James E. Newsome, President, Society for Advancement of Management — John T. Jackson, Vice President, Remington Rand Inc., James Weidman, Director, Public Relations, Hamilton Watch Company.

John B. Joynt (right), Vice President, Management Planning, New York Central System, receiving the Taylor Key, highest award of S.A.F., from James E. Newsome, National President. Mr. Joynt is a former President and Chairman of the Board of S.A.M.

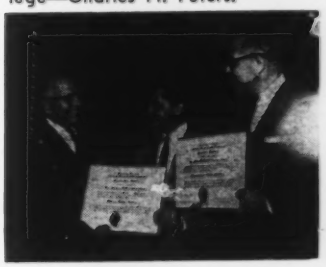
Human Relations Award is presented to James C. Penney (right), Founder and Director of the J. C. Penney Co., by President Newsome.

L. to R.—Prof. Fischer—J. Alan Ofner, Vice Chairman — Carl B. Genrich, Jr., Chairman, Senior Advisory Committee.

L. to R.—Ed Boudreoux, Vice Chairman—Joe Gilman, Chairman, Alumni Advisory Committee.

AUBURN UNIVERSITY—From left to right — Professor Charles N. Cobb, Faculty Advisor — Prof. Fischer—Paul D. Kelley—Dr. William E. Lane, Chairman, Dept. of Business Administration.

BINGHAMTON-LANCASTER — L. to R.—Prof. Fischer—Jerome Snyder, Faculty Advisor, Harpur College—Charles H. Peters.



BOSTON CHAPTER—L. to R.—Prof. Fischer — Robert MacWilliams.

University—Chicago—LOYOLA FAIR—SAM BOOTH; New York University — School of Commerce—Evening Division—1959 YEARBOOK and MUSCULAR DYSTROPHY; Ohio University — COLLEGE INTERVIEW CLINIC; Purdue University — COLLEGE SUMMER EMPLOYMENT PROJECT; University of Houston — PROMOTIONAL BROCHURE; University of Maryland—CIVIC CONSULTANT COMMITTEE PROJECT; University of Mississippi — STUDENT EXECUTIVE SEMINAR; LaSalle College—Evening Division—SENIOR CHAPTER MEMBERSHIP.

The University Chapter Promotion Awards were won by the following Senior Chapters for their achievement in advancing the art and science of management through the successful promotion and support of University Chapter: Binghamton, Boston (2 awards), Bridgeport, Chattanooga, Chicago (2 awards), Hawaii, Hudson Valley, Indianapolis, Lancaster, Los Angeles (2 awards), New York, Philadelphia, San Diego, San Francisco, and Washington.

CHATTANOOGA CHAPTER—L. to R. — Prof. Fischer — James C. Grainger.

CHICAGO CHAPTER — Prof. Fischer — J. Alan Ofner.

CLEARING CHAPTER — SAN FRANCISCO CHAPTER — Prof. Fischer—Joseph Kennedy, Student Coordinator, Clearing Chapter—Kenneth McCloskey, National Director, San Francisco Chapter.

HUDSON VALLEY CHAPTER — WASHINGTON CHAPTER—Prof. Fischer—Edward Schurick—William Divine, President, Washington Chapter.

LASALLE COLLEGE — EVENING DIVISION — L. to R. — Linwood Fauntleroy — Professor Joseph E. Crowley, Faculty Advisor — Vince Romano—Brother G. Paul, Dean—Joe Gilman—Prof. Fischer—Bob Gear — Lawrence Quinn — Thomas Gall — John Fleck — Vincent Di Paolo — Leonard Tusone — Abraham Kern—Matthew Romano.

LOS ANGELES CHAPTER—L. to R.—Prof. Fischer—George Rathmel, President.

LOUISIANA STATE UNIVERSITY — From left to right — Ed Boudreaux — Prof. Fischer — Joseph Norton.

LOYOLA UNIVERSITY OF CHICAGO — From left to right — Charles Dolezal—James Heath—Robert Aagard—Eugene Nowak—Prof. Fischer — Dr. Raymond Mayer, Faculty Advisor — John Frey — John Gaspers — Paul Gewartowski—Edward Downs.

NEW YORK—BINGHAMTON—L. to R.—George Murphy, President, New York Chapter—Jerome Snyder, Faculty Advisor, Harpur College — Prof. Fischer — Dr. Darrell Piersol, Past President, Binghamton Chapter—Jack Feeney, President, Binghamton Chapter.

NEW YORK UNIVERSITY—DAY DIVISION—From left to right—Julian May—David Duchin—Prof. Fischer — Dr. James J. Cribbin, Faculty Advisor — Kenneth Kleinman.

NEW YORK UNIVERSITY — EVENING DIVISION — From left to right—Pastore—Wilbur Davidson — Ruth Person — Lee Weekly — Prof. Fischer — Patricia McSweeney — Alfred Simon — Mariette Block—David Adler—Phylis Garrett — Mrs. V. Marchesano — Dr. Charles Wrege, Faculty Advisor.

OHIO UNIVERSITY—From left to right — Jerry Hinkley — Nancy Hinkley — Dale Welks — Bill Mustaine—Professor Fischer—Dr. E. T. Hellebrandt, Faculty Advisor — Kenneth Romig—Dick Safigen.

PHILADELPHIA CHAPTER — INDIANAPOLIS CHAPTER—L. to R. —Joe Gilman—Carl Beck—Prof. Fischer—Carl B. Genrich.

PURDUE UNIVERSITY—From left to right — Patrick Gallagher — Prof. Fischer—Prof. William Holstein, Faculty Advisor — Carl B. Genrich.

RIDER COLLEGE — From left to right — Hecht — Donald Page — Prof. Fischer—Prof. Carl Nawoj, Faculty Advisor — Roger Schmidt.

ROOSEVELT UNIVERSITY—From left to right—Dr. Elbert C. Flora, Faculty Advisor — Prof Fischer — James Grazys—Bruno Morkunas.

AWARDS LUNCHEON
(Continued)

ST. NORBERT COLLEGE — From left to right—Rev. Robert K. Finnegan, O. Praem, Faculty Advisor —Prof. Fischer—Robert Skupas.

UNIVERSITY OF HOUSTON — Form left to right—Lester O. Robert—Prof. Fischer—James Allen.

UNIVERSITY OF MARYLAND — From left to right—John Coffin—Frank Donnelly — Prof. Fischer — Dr. Clinton Spivey, Faculty Advisor — Notton — Walter Phillips—Dick Dorman.

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Registrar, St. John's University, Grand Central & Utopia Pkways, Jamaica 32, N.Y., JAmaica 6-3700

UNIVERSITY OF MISSISSIPPI — From left to right—Prof. Fischer—Dr. William Green, Faculty Advisor — Heyward Green — Neville D. Dunnan—James P. Bailey.

UNIVERSITY OF WISCONSIN—MILWAUKEE—From left to right —Prof. Fischer—Richard Child—Richard Pokorny — David Knoll — John Koenig.